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The Judicial System and the Law of Life Insurance, 1888-1910*

¶ Despite a widely prevailing judicial insensitivity to corporate reform and regulation, the large insurance companies found themselves under careful, constant, and not always sympathetic legal scrutiny. This scrutiny tended to emphasize the equity rather than the letter of the law, and kept the insurance contract the flexible servant of a dynamic society and industry.

Few of the institutions that shaped American life in the late nineteenth and early twentieth centuries equaled the big business corporation in importance. The wealth and impersonality of this complex organization conjured up fearsome images of unbridled power, and gave it a major place among the concerns of the American people. But while an impressive body of public and political opinion agreed upon the dangers of the large corporation, the judicial system seemed to lag behind in insight. It dealt often with corporate affairs, but in a manner which many thought uncritically sympathetic.[1] The Populists and Theodore Roosevelt attacked the courts for standing in the way of legislative and executive regulation of big business.[2] At the same time, conservatives defended the judiciary defense as a bulwark of stability in an age of untoward reform.[3]

Historians of the period have been governed by an image of judicial decisions "shaping the federal and the several state constitutions into an almost impenetrable barrier against social legisla-

* This article derives from a study of the large insurance companies, to be published under the auspices of the Center for the Study of the History of Liberty, Harvard University.

[1] By 1883 one half of circuit court and one third of Supreme Court cases involved corporations. Felix Frankfurter and James W. Landis, *The Business of the Supreme Court* (New York, 1927), p. 89n. See also Francis R. Aumann, "Some Problems of American Legal Development During the Period of Industrial Growth, 1865-1900," *University of Cincinnati Law Review*, vol. XII (1938), pp. 520, 523.

[2] Alan F. Westin, "The Supreme Court, the Populist Movement and the Campaign of 1896," *The Journal of Politics*, vol. XV (1953), pp. 3-41; George E. Mowry, *Theodore Roosevelt and the Progressive Movement* (Madison, 1946), pp. 214-217.

[3] Elihu Root, *Addresses on Government and Citizenship* (Cambridge, 1916), pp. 445-462; Henry C. Lodge, *The Democracy of the Constitution and Other Addresses and Essays* (New York, 1915), pp. 69-87, 105.

tion."[4] They have generally agreed that judicial conservatism protected corporations through the Constitution's due process and contract clauses, and through judicial review which contained, or superseded, the lawmaking prerogatives of the legislatures.[5]

But in one exceedingly active area of corporate litigation, cases involving life insurance companies, different values prevailed. A highly developed sense of public responsibility replaced the courts' usual social insensitivity. Juridical ingenuity, usually exercised in behalf of the corporation, here came into play for the individual petitioner. In this anomalous development at the high noon of judicial standpattism may be seen the values and techniques which ultimately made the courts agents rather than opponents of democracy in twentieth-century America.[6]

I

Life insurance companies were especially likely beneficiaries of a judicial system predisposed to big business. National enterprises, they considered themselves trammeled by state regulation of a sort which the courts frowned upon in other contexts. Their very product – the contract – was the most cherished instrument of the nineteenth-century judiciary.

[4] References to judicial conservatism may be found in Eric F. Goldman, *Rendezvous with Destiny* (New York, 1952); Richard Hofstadter, *The Age of Reform* (New York, 1955), p. 250; and George Mowry, *Theodore Roosevelt and the Progressive Movement* (Madison, 1946), pp. 214–215, and *The Era of Theodore Roosevelt* (New York, 1958), pp. 264–265. See also Westin, "The Supreme Court," *passim*; Arnold M. Paul, "Legal Progressivism, the Courts, and the Crisis of the 1890's," *Business History Review*, vol. XXXIII (Winter, 1959), pp. 495–509; Arnold M. Paul, *Conservative Crisis and The Rule of Law: Attitudes of Bar and Bench, 1887–1895* (Ithaca, 1960), *passim*; Clyde E. Jacobs, *Law Writers and the Courts* (Berkeley and Los Angeles, 1954), chap. 5.

[5] Most substantial histories of the Supreme Court or of constitutional law accept these views: Gustavus Myers, *History of the Supreme Court of the United States* (Chicago, 1912), pp. 578–786; Charles G. Haines, *The Revival of Natural Law Concepts* (Cambridge, 1930), pp. 138–139, 323–336; Louis B. Boudin, *Government by Judiciary* (New York, 1932), vol. II, *passim*; Robert K. Carr, *The Supreme Court and Judicial Review* (New York, 1942), p. 146; Carl B. Swisher, *American Constitutional Development* (Cambridge, 1943), p. 527. Cf. also Benjamin R. Twiss, *Lawyers and the Constitution* (Princeton, 1942), chaps. IV–X, and Sidney Fine, *Laissez Faire and the General-Welfare State* (Ann Arbor, 1956), chap. V. Some contemporaries – Roscoe Pound, Richard T. Ely, Frank J. Goodnow, Frederic R. Coudert – saw a developing liberalism in the turn-of-the-century Supreme Court, but often emphasized the greater conservatism of the state tribunals. See references and quotations in Charles Warren, *The Supreme Court in United States History* (Boston, 1923), vol. III, pp. 468–469n., and 399, 466–469. The most sophisticated analysis of nineteenth-century and early twentieth-century judicial tendencies, one to which I am heavily indebted, is Willard Hurst, *Law and the Conditions of Freedom in the Nineteenth Century United States* (Madison, 1956), *passim*.

[6] The author recognizes that this judicial disposition appeared in other areas of litigation, such as mortgage foreclosures and small loans, where there was a recognized disparity in the parties' bargaining power. But none of these areas directly involved corporations as puissant as the great life insurance companies. Charles W. Carnahan, *Conflict of Laws and Life Insurance Contracts* (Chicago, 1942), denies that the courts choose the precedential rules which will benefit the insured (p. 680), but much of his own work suggests otherwise; cf. pp. 8–9, 286–287, 443, 678–679, 683. For conclusions similar to mine, see Spencer L. Kimball, *Insurance and Public Policy* (Madison, 1960), pp. 209ff.

The great life and industrial companies in particular were in a position to expect gentle treatment in the courts. The New York Life, Equitable, and Mutual, the "big three" of the straight life business, dominated the field through the last half of the nineteenth century. During the 1890's the Metropolitan and the Prudential, specializing in low-cost industrial insurance, joined the select group at the head of the industry. In 1900 the five corporations had about $5,000,000,000 worth of insurance in force; the next 20 companies in size had only a little over $2,000,000,000.[7] But factors other than wealth made them a unique corporate group. Their managers were more inclined to think in political and ideological terms than were most executives of the time. They claimed for themselves and for their companies a trustee-like, quasi-public function (the Mutual's president, Richard McCurdy, liked to speak of his firm as a missionary institution); they entered into intricate financial alliances with banks, trust companies, and investment banking houses; and they participated actively in state and national politics.[8]

Corporations of such power made special demands on legal counsel. At first, peripheral, part-time consultants provided the service.[9] But the firms' spectacular increase in size and complexity demanded greater legal specialization. The Prudential in 1885 began to require the exclusive attention of its attorneys; the Mutual and the New York Life established their first full-time solicitors in 1893; the Metropolitan had a Claim and Law Division by 1897. By the end of the century the insurance company lawyer had joined the railroad attorney as a fixture on the American legal scene.[10] John R. Dos Passos' statement in 1907 that "the lawyer now boldly enters into the business end of his client's transactions – he sells him prudence and experience, sometimes even usurping the client's discretion and judgment" was especially true of the large life insurance companies.[11] In the 1905 Armstrong investigation in New York, an

[7] J. Owen Stalson, *Marketing Life Insurance* (Cambridge, 1942), p. 799.

[8] These themes will be developed in a forthcoming work by the author. The best printed sources are the records of the 1905 New York investigation (*Testimony and Report of the Legislative Insurance Investigating Committee*, 10 vols. [New York, 1905]), and the better company histories: R. Carlyle Buley, *The Equitable Life Assurance Society of the United States, 1859–1959* (New York, 1959); Shepard B. Clough, *A Century of American Life Insurance* [Mutual] (New York, 1946); Marquis James, *The Metropolitan Life* (New York, 1947). See also Stalson, *Marketing Life Insurance*, pp. 428–543; R. Carlyle Buley, *The American Life Convention* (New York, 1953), vol. I, pp. 86–193; Douglass C. North, "Life Insurance and Investment Banking at the Time of the Armstrong Investigation of 1905–1906," *Journal of Economic History*, vol. XIV (1954), pp. 209–228.

[9] Clough, *A Century of American Life*, pp. 120, 198; "Atkinson's History of the Prudential," chap. 4 (typescript, Prudential Archives).

[10] *Ibid.*; Prudential, *Board of Directors' Minutes*, Jan. 14, 1897; Mutual, *Board of Trustees' Minutes*, Dec. 27, 1893; New York Life, *Docket Books*, 1893; Louis J. Dublin, *A Family of Thirty Million* (New York, 1943), p. 365; Willard J. Hurst, *The Growth of American Law* (Boston, 1950), p. 351.

[11] *The American Lawyer* (New York, 1907), p. 22.

eminent collection of attorneys – Bainbridge Colby and Elihu Root (and, behind the scenes, William D. Guthrie) for the Equitable; James M. Beck for the Mutual; Richard Lindabury for the Prudential and the Metropolitan – acted for the corporations' interests. Lindabury, who came to dominate the management of the Prudential, typified this symbiosis of law and insurance.[12]

The five companies, then, in wealth, prestige, and legal guidance were an exceptionally well-favored corporate group. If the appurtenances of power carried any weight in the courts, these firms had a special claim to preference. An examination of their legal experience at the turn of the century should show to what extent that claim was realized. By placing that analysis within the context of contemporary life insurance law, it is possible to trace judicial attitudes toward this important enterprise.

II

A chronological examination of the companies' litigation from 1888 through 1910 (Table I) reveals a rise and fall in the number of cases despite a spectacular – and unbroken – increase in business volume.[13]

Life insurance litigation traditionally was scant; one authority counted only about 100 cases down to 1870.[14] But in the 1890's, appellate decisions affecting the Big Three and the Metropolitan

[12] Robert T. Swaine, *The Cravath Firm* (New York, 1946), vol. I, pp. 750–765; Legislative Insurance Investigating Committee, *Testimony*, vol. I, pp. 9–10; Earl C. May and Will Oursler, *The Prudential* (Garden City, 1950), pp. 142–155.

[13] These, and ensuing, tabular data are derived from a study of the five companies' litigation based on Guilford A. Deitch, ed., *Insurance Digest*, vols. I–XXIII (1889–1911), a reasonably complete analysis of insurance cases in all appellate courts. The ratio of reported to recorded cases is, of course, a very small one. An analysis of the New York Life's Docket Books (in the office of the company's General Counsel) for the years 1895, 1900, 1905, and 1910 suggests the proportion.

	Cases Begun [a]		Initial Finding Accepted			Appeals	
Year	By Company	Against Company	Pro-company Decisions	Anti-company Decisions	Settlements Out of Court	By Company	Against Company
1895	1	34	12	11	12	4	1
1900	3	42	26	8	11	3	2
1905	7	58	23	20	22	12	4
1910	5	45	16	20	17	7	4

[a] Statistical imbalances are due to the incomplete information in the Docket Books. The figures are to be taken as representative rather than exact.

There were approximately 2,000 cases reported in the New York Life's Docket Books from Oct., 1893, to Jan., 1910. The company's appellate litigation in the *Insurance Digest* from 1894 to 1910 totaled 133 actions. See also George H. Jaffin, "Prologue to Nomostatistics," *Columbia Law Review*, vol. XXXV (1935), p. 7; Hurst, *Growth of American Law*, pp. 160, 171–172.

[14] Charles F. Knight, *The History of Life Insurance in the United States to 1870* (Philadelphia, 1920), p. 158; cf. *Weekly Underwriter*, vol. XXXVII (1887), pp. 85–86.

TABLE I

The Five Companies' Litigation — A Chronological Analysis

Year	New York Life	Equi- table	Mutual	Metro- politan	Pruden- tial	Company Cases: Affirmed for company	Company Cases: Reversed against company	Company Cases: Affirmed against company	Company Cases: Reversed for company	Company Cases: Total	Federal Court Cases	Pro- company Decisions	Anti- company Decisions
1888 [a]	2	3	1	5	0	3	3	2	3	11	1	6	5
1889	0	2	0	2	2	1	1	3	1	6	0	2	4
1890	2	2	4	2	0	6	0	2	2	10	1	8	2
1891	2	2	2	1	2	4	1	2	2	9	3	6	3
1892	3	0	8	5	5	9	2	8	2	21	0	11	10
1893	2	0	1	5	2	4	0	4	2	10	2	6	4
1894	2	6	4	7	1	7	1	9	3	20	3	10	10
1895	7	3	5	9	5	5	2	15	7	29	3	12	17
1896	2	2	12	14	6	8	5	15	8	36	4	16	20
1897	10	7	6	18	9	7	2	27	14	50	9	21	29
1898	9	6	8	24	6	16	6	19	12	53	5	28	25
1899	14	3	3	12	3	6	8	12	9	35	1	15	20
1900	5	6	13	11	6	12	3	12	14	41	10	26	15
1901	5	4	2	10	10	9	6	11	5	31	2	14	17
1902	9	4	7	14	6	14	0	13	13	40	3	27	13
1903	7	6	8	11	6	6	4	17	11	38	2	17	21
1904	8	2	13	11	11	13	3	19	10	45	3	23	22
1905	4	6	6	11	4	8	7	3	13	31	3	21	10
1906	10	8	7	17	11	12	10	17	14	53	7	26	27
1907	9	6	10	10	4	12	2	10	15	39	4	27	12
1908	12	5	10	20	5	11	8	16	17	52	4	28	24
1909	6	9	10	10	5	11	4	18	7	40	2	18	22
1910	12	7	8	18	6	11	11	15	14	51	5	25	26
TOTAL	142	99	148	247	115	194	89	269	198	751	77	393	358

[a] Includes Oct.–Dec., 1887.

(The categories in this table are based on final court judgments in relation to the findings immediately precedent.)

increased out of proportion to the rate of their business growth. The imbalance suggests that the companies were more inclined than before to contest suits to their ultimate judicial conclusion. Such a legal philosophy correlates with the firms' aggressive marketing, investment, and political performance.

Conversely, between 1900 and 1905 settled cases leveled off in number, although the companies continued their rapid growth. It is likely that this reflected a developing conviction that no great profit lay in court battles; the New York Life's out-of-court settlements doubled during these years.[15] The source of this conviction may well have been the fact that as the number of judicial decisions mounted, so did the likelihood that the company would be the loser. (When litigation eased in the early 1900's, the ratio of pro-company decisions picked up.) The rise in decisions between 1905 and 1910 can be ascribed primarily to the Armstrong investigation: stockholder and policyholder suits were common in the wake of that inquiry. But certainly company litigiousness had come to be a thing of the past. The Metropolitan, possessor of the heaviest court docket, took on "a new point of view" around 1912: a disinclination to contest policy claims. The theme of a discussion of insurance legal procedures in the same year was that "a bad compromise is better than a good law suit." [16]

These conclusions were encouraged by a pattern of judicial decisions national in scope. Only New York (and the federal courts) leaned markedly in the companies' favor; only Missouri substantially found against them (Table II). True, the appellate courts reversed numerous anti-company decisions, in recognition of the strong animus for the individual petitioner prevailing among juries. But, as will be seen, this did not mean that the companies might look to the higher courts for positive accommodation of their interests.

[15] See Table above, note 13. The Mutual, traditionally more litigious than its peers, led in the withdrawal from courtroom battle. Its out-of-court settlements went from 35% of all litigation in 1895 to 70% in 1897. Mutual, *Minutes of the Board of Trustees*, Feb. 19, 1896, Dec. 28, 1898. The companies always were defendants far more often than they were plaintiffs. The straight life firms, dealing in more substantial policies, were readier to seek legal action:

Company	Per Cent of Litigation Begun by Company (1888–1910)
Mutual	37%
New York Life	35%
Equitable	28%
Metropolitan	27%
Prudential	19%

[16] Louis Dublin, *A Family of Thirty Million* (New York, 1943), pp. 367–368; Howard P. Dunham, comp., *The Business of Insurance* (New York, 1912), vol. III, p. 123. The rate of decisions in later years – 56 in 1915, 38 in 1920, 41 in 1925 – reveals that litigation remained stabilized while the volume of insurance rose enormously.

TABLE II

Court Insurance Decisions, 1888–1910

State	Pro-company Decisions	Anti-company Decisions
New York	90	74
Pennsylvania	23	25
Massachusetts	18	17
New Jersey	10	11
Ohio	11	8
Indiana	11	7
Illinois	15	13
Michigan	9	7
Minnesota	5	5
Wisconsin	8	6
Iowa	5	7
Texas	23	21
Missouri	13	20
Kentucky	31	33
Georgia	8	4
Virginia	4	6
North Carolina	7	5
Maryland	4	7
Federal Courts	44	32

III

A subject analysis of the great companies' litigation, and of trends in the life insurance law of the time, shows how the courts worked a substantial degree of ameliorative justice – often in the face of established legal precedent (Table III).[17]

A. REGULATION

(1) *The Companies and the Regulatory Structure*

Life insurance companies in the late nineteenth and early twentieth centuries operated within an exceptionally elaborate system of state supervision. Many states had commissioners and departments of insurance; almost all had numerous insurance laws. Taxation, licensing, policy provisions, premium payments, beneficiary rights, and agents' activities were among the subjects covered by

[17] In numerous instances, a single case touched on more than one of these subjects, and was included in each appropriate category.

The author of this article is indebted to Mr. Walter Poulshock for assistance in gathering this material, and to the Social Science Research Council for the financial aid which made this study possible.

TABLE III

The Five Companies' Litigation — A Subject Analysis, 1905–1912

Subject	Pro-company Decisions			Anti-company Decisions		
	Affirmations	Reversals	Total	Affirmations	Reversals	Total
A — Regulation						
(1) Statutes	14	14	28	32	6	38
(2) Foreign Companies	20	2	22	17	2	19
B — Policy Contract						
(1) Application	33	48	81	65	15	80
(2) Premiums	35	39	74	56	13	69
(3) Settlement						
(a) Proofs and causes of death	14	17	31	21	4	25
(b) Beneficiary	26	32	58	68	17	85
C — Agent						
(1) Agent and Policyholder	22	20	42	52	19	71
(2) Agent and Company	14	14	28	10	5	15

this diverse and widespread field of legislation. Statutes forbidding rate discrimination against Negroes and, after the 1905 Armstrong investigation, limiting company executives' salaries and the amount of business that a firm might do in a year, bespoke a regulatory vigor unique to the time.[18]

Yet the courts showed no apprehension over this supervisory structure. In an age not noted for judicial sanction to legislative control, judges often dwelt on its necessity for the insurance business.[19] Between 1890 and 1908, tribunals found only about one per cent of some 2,000 insurance laws unconstitutional.[20]

[18] George Richards, *A Treatise on the Law of Insurance* (3d ed., New York, 1912), Appendix, chap. I, *passim*; Edwin W. Patterson, *The Insurance Commissioner in the United States* (Cambridge, 1926), pp. 519–537. The scope of life insurance legislation during the period is suggested by: New York State Library, Legislative Bulletins 1–39, *Yearbooks of Legislation* (Albany, 1890–1908); and "Notes on Current Legislation," *American Political Science Review*, vol. I (1907), pp. 258–261, 608–619; vol. III (1909), pp. 401–404; vol. IV (1910), pp. 393–395; vol. VI (1912), pp. 415–425.

[19] "Such companies and such contracts naturally and properly belong to a class by themselves, and must be governed by laws that would be wholly inappropriate to any other company or any other contracts." *Andrus* v. *Fidelity Mut. Life Ins. Ass'n.*, 67 S.W. 582 (Mo. 1902). "There is such a difference between the insurance business and other kinds . . . as to justify and not make repugnant to the equality clause of the . . . Constitution . . . state laws penalizing companies for bad faith in refusing to pay claims promptly." *Continental Fire Ins. Co.* v. *Whitaker & Dillard*, 195 Am. St. Rep. 916 (Tenn. 1904). See also *People* v. *Formosa*, 30 N.E. 492 (N.Y. Ct. Supp., 1892); *Orient Ins. Co.* v. *Diggs*, 172 U.S. 557 (1899); *Cravens* v. *N.Y. Life Ins. Co.*, 178 U.S. 389 (1900); *German Alliance Ins. Co.* v. *Lewis*, 233 U.S. 389 (1914).

[20] The estimate of total insurance legislation is based on the yearly *Index to Legislation* of the New York State Library Bulletin (see note 18); decisions of unconstitutionality

The managers of several large companies claimed that state regulation was expensive, vexatious, and constraining. With characteristic boldness they proposed instead the federal regulation of life insurance, which would be cheaper, uniform — and, they presumed, easier to control. Numerous legal and political spokesmen, including President Theodore Roosevelt, supported the idea. But the Supreme Court refused to countenance this challenge to state regulation.[21]

The great companies' regulatory decisions often seemed to be a matter of case-by-case equity. The same Kansas court in one year found twice for the Insurance Commissioner's right to withhold licenses — and twice against it.[22] The United States Supreme Court handed down seemingly contradictory decisions on a New Orleans tax, distinguishing between actions on highly subtle grounds.[23] And when the Massachusetts Supreme Court approved of the state Commissioner's authority to pass on policy forms, it also averred its right to review such administrative decisions.[24]

But a fundamental commitment to the principles and practices of state supervision underlay this judicial flexibility. The majority of the large firms' regulatory cases went against them. And in *Cravens* v. *New York Life* in 1900, and *New York Life* v. *Deer Lodge County* in 1913, the Supreme Court beat down company attempts to evade state supervision by having the life insurance business made a part of interstate commerce.[25]

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were compiled from the Index to Legislation and the *Insurance Law Journal*, vols. XVII–XXXIX (1888–1910), *passim*. Of 19 findings of unconstitutionality of statutes with regard to the contract clause, 7 may be considered antithetical to the insurance companies' interests. See also Benjamin F. Wright, *The Contract Clause of the Constitution* (Cambridge, 1938), p. 129.

[21] John F. Dryden, *Addresses and Papers on Life Insurance and Other Subjects* (Newark, 1909), pp. 175–215; James M. Beck, "The Federal Regulation of Life-Insurance," *North American Review*, vol. CLXXXI (1905), pp. 191–201; George W. Perkins, "Corporations in Modern Business," *North American Review*, vol. CLXXXVII (1908), p. 396; American Bar Association, *Reports*, vol. XXVIII (1905), pp. 92–123, 492–516; Morton Keller, *In Defense of Yesterday* (New York, 1958), pp. 75–78.

[22] *Hillmon* v. *Mutual Life Ins. Co.*, 79 Fed. 749 (C. C. Kan. 1897); *Hillmon* v. *N.Y. Life Ins. Co.*, 79 Fed. 749 (C.C. Kan. 1897); *Metropolitan Life Ins. Co.* v. *McNall*, 81 Fed. 888 (C.C. Kan. 1897); *Mut.* v. *Boyle*, 82 Fed. 705 (C.C. Kan. 1897).

[23] *Met.* v. *City of New Orleans*, 205 U.S. 395 (1907); *Bd. of Assessors* v. *N.Y.L.*, 216 U.S. 517 (1910).

[24] *N.Y.L.* v. *Hardison*, 85 N.E. 410 (Mass. 1908).

[25] 233 U.S. 389 (1914); 178 U.S. 389 (1900); 231 U.S. 495 (1913). Cf. *German Alliance Ins. Co.* v *Lewis*, 233 U.S. 389 (1914). There were numerous instances of judicial regulation of the large companies' business structure. In 1902 John F. Dryden, the Prudential's president, proposed to solidify control of the company by his associates and himself through an elaborate exchange-of-stock arrangement with the Fidelity Trust Company. Dissatisfied stockholders challenged the plan. The New Jersey Court of Chancery granted an injunction blocking the Prudential's purchase of Fidelity stock, declaring that the company's managers "were not elected to revise the laws of New Jersey, or to devise schemes for evading those laws. . . ." (*Robotham* v. *Pru.*, 53 Atl. 842, 853 [N.J. 1903]; May and Oursler, *The Prudential*, pp. 126–129.) When, in later years, the Prudential and the Equitable changed from stock to mutual companies, judicial decisions generally assisted an organizational change considered desirable for a large life insurance company. (May and Oursler, *The Prudential*, pp. 149–150, 157–169; *Lord* v. *Equitable*

(2) *The Companies as Foreign Corporations*

Nineteenth-century courts held the foreign (out-of-state) corporation rigidly subject to the jurisdiction of the states in which it carried on its business. Their interstate character and quasi-public nature made insurance companies prominent parties in this line of cases. But a more protective judicial attitude toward foreign corporations came into play by the end of the century, as American business companies became truly national in scope.[26] The large insurance firms benefited to the extent that they won a slight majority of their actions in this area. The pro-company majority might be described as a "coalition of exceptions" to the strict view of the foreign corporation. Points of jurisdiction,[26a] details of service and judgment,[26b] and, less often, the invalidity of the regulation itself,[26c] were the means by which the courts shaped their policy of liberalization. Anti-company decisions tended to be less subtle restatements of the traditional rule. The technique here at play – a mass of exceptions adding up to a substantial deviation from legal tradition – appears in other areas of life insurance law as well. More often than not, these exceptions worked against the companies.

B. THE CONTRACT

The Courts and the Contract

Once the insurance contract had been in truth an instrument of equals – of mercantile-maritime policyholders and small companies, comparable in legal knowledge and bargaining power. But the revolutionary changes of the nineteenth century, particularly in life in-

Life Assurance Soc., 108 N.Y. Supp. 67 [1908], 87 N.E. 443 [1909]; *People* v. *Equitable*, 101 N.Y. Supp. 354 [Trial Ct., 1906].)

[26] Gerard C. Henderson, *The Position of Foreign Corporations in American Constitutional Law* (Cambridge, 1918), pp. 55, 64–66, 84, 101–108; "W.B.R.," "The Adoption of the Liberal Theory of Foreign Corporations," *The University of Pennsylvania Law Review*, vol. CXXIX (1931), p. 964; Joseph H. Beale, *The Law of Foreign Corporations* (Boston, 1904), para. 116–117, 132; William R. Vance, "Federal Control of Insurance Corporations," *The Green Bag*, vol. XVII (1905), pp. 84–85; Ernst Freund, *The Police Power* (Chicago, 1904), p. 737.

[26a] *Banholzer* v. *N.Y.L.*, 178 U.S. 402 (1900); *Doll* v. *Equit.*, 138 Fed. 705 (3d Circ. 1905); *Johnson* v. *N.Y.L.*, 78 N.W. 905 (Iowa 1899); *Met.* v. *Commonwealth*, 84 N.E. 863 (Mass. 1908); *Haskell* v. *Equit.*, 63 N.E. 899 (Mass. 1902); *Johnson* v. *Mut.*, 62 N.E. 733 (Mass. 1902); *Bottomley* v. *Met.*, 49 N.E. 438 (Mass. 1898); *Epperson* v. *N.Y.L.*, 90 Mo. App. 432 (1903); *McElroy* v. *Met.*, 122 N.W. 27 (Neb. 1909); *Met.* v. *Bradley*, 79 S.W. 367 (Tex. Cir. Ct. App. 1904).

[26b] *Montgomery Ex'rs* v. *Equit.*, 34 Pa. County Ct. 671 (Phila. County Ct. 1908); *Dillon* v. *Met.*, 33 Pa. County Ct. 176 (Phila. County Ct. 1907); *Cowan* v. *Met.*, 33 Pa. County Ct. 175 (Phila. County Ct. 1907); *Hall* v. *Met.*, 15 Pa. Dist. 144 (Phila. County Ct. 1906); *Rohrer, Adm'r.* v. *Met.*, 22 Lancaster L. Rev. 67 (Lancaster County Ct. [Pa.] 1905); *Ford* v. *Met.*, 7 Pa. Dist. 397 (Phila. County Ct. 1898); *Connors* v. *Pru.*, 49 Legal Intelligencer 75 (Luzerne County Ct. [Pa.] 1892).

[26c] *Board of Assessors* v. *N.Y.L.*, 216 U.S. 517 (1910); *Mut.* v. *Boyle*, 82 Fed. 705 (C.C. Kans. 1897); *Met.* v. *McNall*, 81 Fed. 888 (C.C. Kans. 1897); *N.Y.L.* v. *Bradley*, *Treas.*, 65 S.E. 433 (S.C. 1909); *N.Y.L.* v. *Smith*, 41 S.W. 680 (Tex. 1897).

surance, created an immense gulf between great corporate insurers and the average policyholder. The courts took heed of the resulting imbalance of parties. Judges unready to recognize the vulnerability of the employee in his contractual dealings with his employer found no difficulty in caring for the insured and the beneficiary. Even more revealing was the contrast between insurance contract law and the law of negligence. While the policyholder was treated with increasing solicitude, precisely the reverse occurred in negligence law. Contributory negligence became a legal device to increase the individual's responsibility to avoid accident in an increasingly dangerous and complex society: "It was necessary that the correlative duty of self-protection should be extended as a counterpoise and corrective." [27]

The advanced state of insurance policy law can be attributed to the potency of the social images characterizing the business: the respectable business or professional man prudently providing for the well-being of his family and his old age; the thrifty laborer putting away a mite for burial insurance; the widow and the orphan shielded only by insurance from the storms of poverty and want. The New York Court of Appeals in 1891 expressed the sentiment of a juridical generation: [28]

> Life insurance companies perform very important functions in modern society . . . a very large number of people are interested in them. They are resorted to for the purpose of making provisions for families and dependents after the death of the insured, and for that purpose many persons invest in them the accumulations of their labor and their thrift. The nature of insurance contracts is such that each person effecting insurance cannot thoroughly protect himself.

In the opinion of many, these views bred legal chaos. One authority concluded in 1897: "The insurance company and its contracts have a place in the statutes and in the courts unknown to any other company and to any other contract; the company has been the sport of legislatures and its contracts the football of the courts." An 1896 attempt to establish a Section of Insurance Law within the American Bar Association stressed the need "to bring before the attention of the Association . . . the anomalies in the decisions of the courts

[27] Francis H. Bohlen, "Contributory Negligence," *Harvard Law Review*, vol. XXI (1908), p. 254. Cf. Christopher S. Patterson, *Railway Accident Law* (Philadelphia, 1886), p. 4; G. Hay, Jr., *The Law of Railway Accidents in Massachusetts* (Boston, 1897), p. 3; Robert S. Hunt, *Law and Locomotives* (Madison, 1958), p. 75.

[28] *People* v. *Formosa*, 16 N.Y. Supp. 783 (1891). "The subject [of insurance contracts] . . . is sui generis and the rules of a legal system devised to govern the formation of ordinary contracts between man and man cannot be mechanically applied to it." *Pfiester v. Mo. State Life Ins. Co.*, 116 Pac. 245 (Kan. 1911). "Courts have always set their faces against an insurance company, which, having received its premiums, has sought by a technical defense to avoid payment." *Mut.* v. *Hill*, 193 U.S. 551 (1904).

upon [insurance] contracts. . . . " Yet what seemed like "a crude mixture of irreconcilable contributions of numerous independent courts" might from a broader perspective appear to be a widespread attempt to wrest a substantial measure of case-by-case equity out of the great mass of life contract litigation.[29]

(1) *The Policy Application*

Perhaps the most venerable principle of insurance law was the rule of warranty: that the applicant's declarations, if false, voided the policy regardless of their import or relevance. Yet this model of legal clarity afforded the most dramatic example of judicial contract interpretation in favor of the insured.

The warranty concept stemmed from the difficulty of validating the statements of seventeenth-century and eighteenth-century maritime insurance applicants. Although its pertinence to life insurance always was questionable, nineteenth-century company counsel insisted upon its strict enforcement – with disastrous results. Thomas I. Parkinson, professor of law at Columbia and later president of the Equitable, ironically recalled "the extraordinary service which insurance lawyers rendered in years gone by, in exaggerating warranties to the point where they were almost one hundred per cent protection against claims, only to develop a public atmosphere and judicial decisions and legislation which puts the insurer under his contract in a worse position . . . than is any other contracting party. That is overservice by the profession." [30]

In 1891 the warranty still was of obvious consequence in life insurance law; by 1911 it seemed, perhaps prematurely, to one expert to be of little importance.[31] Judicial exception involving "a varying degree of departure from common-law canons as applied to other

[29] John A. Finch, "The Law of Insurance in the Law School," American Bar Association *Reports*, vol. XX (1897), p. 496; *Reports*, vol. XIX (1896), p. 32; Charles E. Gross, "Insurance Law," *Yale Insurance Lectures*, vol. II (New Haven, 1904), pp. 335–336, 350. An insurance text writer in 1892 felt called upon to supplement a collection of leading cases with a discussion of principles because of the "large number of independent tribunals in the different States, and the enormous multiplication of reported cases, involving decisions more or less inharmonious with each other." By 1912 he dropped the case collection, explaining: "It has become obvious at a glance that a few isolated instances, a few reported cases, no matter how carefully selected, fail hopelessly to stand for the great body of insurance law as developed in recent times. Each decision is but a pin point on a vast surface." George Richards, *The Law of Insurance* (1st ed., 1892), vols. iii-ix; *ibid.* (3d ed., 1912), vols. vi-vii. See Hurst, *Growth of American Law*, pp. 265–266, for a similarly motivated critique of the case method of legal education.

[30] Edwin W. Patterson, "Warranties in Insurance Law," *Columbia Law Review*, vol. XXXIV (1934), pp. 595–597; William R. Vance, "The History of the Development of the Warranty in Insurance Law," *Yale Law Journal*, vol. XX (1911), p. 533; George L. Amrhein, *The Liberalization of the Life Insurance Contract* (Philadelphia, 1933), pp. 139–143; Parkinson, "Are the Law Schools Adequately Training for the Public Service?" *American Law School Review*, vol. VIII (1935), p. 294.

[31] Frederick H. Cooke, *The Law of Life Insurance* (New York, 1891), pp. 21, 26; Vance, "Development of the Warranty," p. 523; Patterson, "Warranties," p. 620.

branches of the law" enabled the courts to perform their ameliorative work. Among their devices were the concept of representations, the doctrine of waiver and estoppel, and, "an American innovation in the law of insurance," the admissibility of parol waivers (verbal evidence) to modify a contract.[32]

The courts struck a remarkably close balance for and against the great companies in their application litigation. In achieving this equipoise they reversed three times as many anti-company as pro-company findings. The appellate tribunals, then, might seem to be laboring to preserve the doctrine of warranties from erosion by jury decisions. But pro-company decisions almost always were based on straightforward findings that the warranty (or, occasionally, the representation) required was real and valid, and that the applicant had failed to meet its requirements. It was necessary to follow more tortuous routes in many of the decisions which found otherwise. The misleading role of the agent,[32a] unintentional company waivers, [32b] technical points of pleading and action: [32c] these were among the devices which the courts used in protecting the applicant even when he made a false declaration. That applicants finally won as often as the companies becomes, then, a significant

[32] Friedrich Kessler, "Contracts of Adhesion – Some Thoughts About Freedom of Contract," *Columbia Law Review*, vol. XLIII (1943), p. 633; Clarence Morris, "Waiver and Estoppel in Insurance Policy Litigation," *The University of Pennsylvania Law Review*, vol. CV (1957), pp. 925, 943–945, 951; William R. Vance, "Waiver and Estoppel in Insurance Law," *Yale Law Journal*, vol. XXXIV (1925), p. 834; Richards, *Insurance* (1912), vol. vii n., pp. 162–165. Legislation which restricted the impact of the warranty and the companies' policy liberalization also played important roles in this development. Amrhein, *Liberalization*, pp. 145–147; Richards, *Insurance* (1912), pp. 683–685.

[32a] *La Marche* v. *N.Y.L.*, 58 Pac. 1053 (Cal. 1899); *McGurk* v. *Met.*, 16 Atl. 263 (Conn. 1888); *Fair* v. *Met.*, 63 S.E. 812 (Ga. 1909); *Met.* v. *Larson*, 85 Ill. App. 143 (1900); *Met.* v. *Quandt*, 69 Ill. App. 649 (Sup. Ct. 1898); *N.Y.L.* v. *Easton*, 69 Ill. App. 479 (1898); *Met.* v. *Willis*, 76 N.E. 560 (Ind. Ct. App. 1906); *Halle* v. *N.Y.L.*, 58 S.W. 822 (Ky. 1900); *Hewey* v. *Met.*, 62 Atl. 600 (Me. 1906); *Mailhoit* v. *Met.*, 32 Atl. 989 (Me. 1895); *Van Houten* v. *Met.*, 68 N.W. 982 (Mich. 1896); *Hilt* v. *Met.*, 68 N.W. 300 (Mich. 1896); *Temmink* v. *Met.*, 40 N.W. 469 (Mich. 1888); *Williams* v. *Met.*, 96 N.Y. Supp. 823 (Sup. Ct. 1906); *O'Farrell* v. *Met.*, 48 N.Y. Supp. 199 (Sup. Ct. 1898); *Pickett* v. *Met.*, 46 N.Y. Supp. 693 (Sup. Ct. 1897); *Wells* v. *Met.*, 46 N.Y. Supp. 80 (Sup. Ct. 1897); *Boylan* v. *Pru.*, 42 N.Y. Supp. 52 (Sup. Ct. 1897); *Quinn* v. *Met.*, 41 N.Y. Supp. 1060 (Sup. Ct. 1896); *Robinson* v. *Met.*, 37 N.Y. Supp. 146 (Sup. Ct. 1896); *Corbitt* v. *Met.*, 30 N.Y. Supp. 1069 (Sup. Ct. 1894); *Pru.* v. *Kilbane*, 15 Ohio C.C.R. 62 (1898); *Fludd* v. *Equit.*, 55 So. 762 (S.C. 1907); *Mut.* v. *Nichols*, 26 S.W. 998 (Tex. Ct. App. 1894).

[32b] *Flannigan* v. *Pru.*, 46 N.Y. Supp. 687 (Albany County Ct. 1897); *Singleton* v. *Pru.*, 42 N.Y. Supp. (Sup. Ct. 1897). Other decisions argued that the burden of proof was on the company (*Cobb* v. *Met.*, 19 Pa. Super. 228 [1902]); that intent to deceive had to be shown (*Hogan* v. *Met.*, 41 N.E. 663 [Mass. 1895]); that the company might not necessarily have rejected the applicant if he had answered correctly (*Diamond* v. *Met.*, 116 N.Y. Supp. 617 [Sup. Ct. 1909]); that the warranty must be subject to strict construction (*Owen* v. *Met.*, 67 Atl. 25 [N.J. Ct. Eq. App. 1907]); that the breach of warranty had occurred, but the number of premium payments warranted an exception (*Monahan* v. *Mut.*, 63 Atl. 211 [Md. 1906]).

[32c] *N.Y.L.* v. *Hurd*, 77 S.W. 380 (Ky. 1903); *Summers* v. *Met.*, 90 Mo. App. 691 (1903); *Scott* v. *Met.*, 107 N.Y. Supp. 124 (Sup. Ct. 1908); *Berry* v. *Met.*, 88 N.Y. Supp. 140 (Sup. Ct. 1904); *Lauer* v. *Equit.*, 10 Ohio S. & C.P. 397 (Super. Ct. 1901); *Ellis* v. *Met.*, 77 Atl. 460 (Pa. 1910); *Arnold* v. *Met.*, 2° Pa. Super. 61 (1903); *Guiltman* v. *Met.*, 38 Atl. 315 (Vt. 1897).

measure of the extent to which the courts mitigated a substantial and traditional rule of insurance law.

(2) *The Policy Premium*

Premium payments lay at the heart of the policyholder's contractual obligation, and a lapse in payment was in theory as substantial a breach of contract as false warranty. Few would have quarreled with the 1887 dictum of the New York Court of Appeals: "Punctuality in the payment of premiums . . . is of the very essence of the contract; and, when payment is not made at the time, the company has the right to forfeit. . . ."[33]

But, as in the case of the great firms' application litigation, the courts found ways to avoid the rule almost as often as they upheld it. The techniques used included findings that the company or its agents had waived premium payments;[33a] that the company had not specifically provided for policy forfeiture on nonpayment;[33b] even that the lapse in payment was too minor to void the policy.[33c] Thus the courts worked to preserve the equity of lapsing policyholders.[33d]

[33] *Holly* v. *Met.*, 11 N.E. 507.

[33a] *McMaster's Adm'r.* v. *N.Y.L.*, 183 U.S. 25 (1901); *Mut.* v. *Abbey*, 88 S.W. 950 (Ark. 1905); *Griffith* v. *N.Y.L.*, 36 Pac. 113 (Cal. 1894); *Hogben* v. *Met.*, 38 Atl. 214 (Conn. Sup. Ct. Eq. 1897); *Mut.* v. *Keach*, 22 Chi. Legal News 373 (Ill. Ct. App. 1890); *Pru.* v. *Sullivan*, 59 N.E. 873 (Ind. Ct. App. 1901); *Kimbro* v. *N.Y.L.*, 108 N.W. 1025 (Iowa 1906); *Getz* v. *Equit.*, 64 N.W. 799 (Iowa 1895); *Met.* v. *Mulleady's Adm'x.*, 53 S.W. 282 (Ky. Sup. Ct. 1899); *McNicholas* v. *Pru.*, 82 N.E. 692 (Mass. Sup. Ct. 1907); *Mut.* v. *Herron*, 30 So. 691 (Miss. 1901); *Eames* v. *N.Y.L.*, 114 S.W. 85 (St. Louis [Mo.] Ct. App. 1909); *Wichman* v. *Met.*, 96 S.W. 695 (St. Louis [Mo.] Ct. App. 1906); *N.Y.L.* v. *Smucker*, 80 S.W. 278 (St. Louis [Mo.] Ct. App. 1904); *Lally* v. *Pru.*, 72 Atl. 208 (N.H. 1909); *Singleton* v. *Pru.*, 42 N.Y. Supp. 446 (Sup. Ct. 1897); *Carr* v. *Pru.*, 101 N.Y. Supp. 158 (Sup. Ct. 1906); *East* v. *Pru.*, 42 N.Y. Supp. 584 (Sup. Ct. 1897); *Matthews* v. *Met.*, 61 S.E. 192 (N.C. 1908); *Equit.* v. *Cole*, 35 S.W. 720 (Tex. Ct. App. 1896); *Griesemer* v. *Mut.*, 38 Pac. 7031 (Wash. 1895); *Leonard* v. *Pru.*, 107 N.W. 646 (Wisc. 1906); *Rasmusen* v. *N.Y.L.*, 64 N.W. 301 (Wisc. 1895).

[33b] *Equit.* v. *Golson*, 48 So. 1034 (Ala. 1909); *Mut.* v. *Allen*, 72 N.E. 200 (Ill. 1904); *Ingersoll* v. *Mut.*, 40 Nat.'l Corp. Rep. 825 (Ill. Ct. App. 1910); *Haas* v. *Mut.*, 121 N.W. 996 (Neb. 1909); *O'Brien* v. *Pru.*, 33 N.Y. Supp. 67 (N.Y.C.C.P. 1895); *Brady* v. *Pru.*, 29 N.Y. Supp. 44 (Ct. App. 1894).

[33c] *Lenon* v. *Mut.*, 98 S.W. 117 (Ark. 1907); *Barrett* v. *Mut.*, 85 S.W. 745 (Ky. 1905); *Mut.* v. *Jarboe*, 42 S.W. 1097 (Ky. 1898); *Seidel* v. *Equit.*, 119 N.W. 818 (Wisc. 1909).

Numerous decisions upheld or applied state laws protecting the premium payer: *N.Y.L.* v. *Cravens*, 178 U.S. 389 (1900); *Equit.* v. *Pettus*, 140 U.S. 226 (1891); *Mut.* v. *Dingley*, 100 Fed. 408 (9th Circ. 1900); *Hathaway* v. *Mut.*, 99 Fed. 534 (C.C. Wash. 1900); *Mut.* v. *Allen*, 97 Fed. 985 (9th Circ. 1900); *N.Y.L.* v. *Dingley*, 93 Fed. 153 (9th Circ. 1899); *Equit.* v. *Nixon*, 81 Fed. 796 (9th Circ., 1897); *Equit.* v. *Winning*, 58 Fed. 541 (8th Circ. 1894); *Burridge* v. *N.Y.L.*, 109 S.W. 560 (Mo. 1908); *Nichols* v. *Mut.*, 75 S.W. 664 (Mo. 1903); *Wall* v. *Equit.*, 32 Fed. 273 (8th Circ. 1887); *Burns* v. *Met.*, 124 S.W. 539 (Kan. City [Mo.] Ct. App. 1910); *Whittaker* v. *Mut.*, 114 S.W. 53 (Kan. City [Mo.] Ct. App. 1909); *Auspitz* v. *Equit.*, 115 N.Y. Supp. 109 (Sup. Ct. 1909); *McCall* v. *Pru.*, 90 N.Y. Supp. 644 (Sup. Ct. 1904); *Fischer* v. *Met.*, 56 N.Y. Supp. 260 (Sup. Ct. 1899); *N.Y.L.* v. *English*, 67 S.W. 884 (Tex. 1902). Cf. Cooley, *Insurance*, pp. 1051, 2286–2299.

[33d] In 1891 an authority complained that while the essential nature of the premium payment should have placed the burden of proof in relevant litigation upon the insured, the active rule seemed to be that the insurer had to prove his case in court. Cooke, *Insurance*, p. 172. The judicial tradition in Kentucky held that time was not the essence of the contract so far as premium payment was concerned. Richards, *Insurance* (1912), pp. 502–503. Yet another indication of the courts' concern for the policyholder's equity was their disinclination to allow premium loan or policy note defaults to mar the insurance contract proper (*N.Y.L.* v. *McPherson*, 33 So. 825 [Ala. 1903]); *Boseman's Adm'r.* v. *Pru.*,

(3[a]) *Settlement and Causes of Death*

Rigid proof of death requirements and numerous exemptions of company responsibility in particular causes of death characterized nineteenth-century life insurance policies. But by the end of the century the great firms felt the competitive need to liberalize these provisions, and the courts adapted to the trend.[34]

The treatment of suicide as a cause of death was typical of the process. The judiciary shared an optimistic society's repulsion toward such an act, and readily accepted the companies' disinclination to pay for so horrendous a breach of contract. The Supreme Court in 1898 voided a Mutual policy on this ground even though the contract did not specify suicide as an excepted cause of death. The decision argued: "A contract, the tendency of which is to endanger the public interests or injuriously affect the public good, or which is subversive of sound morality, ought never to receive the sanction of a court of justice."[35] But several companies came to accept suicide as a valid risk. This fact, and the difficulty of determining whether or not suicide actually had occurred, encouraged the appellate tribunals to find alternatives to policy avoidance. In cases of reasonable doubt they agreed with the lower courts that death was accidental; or they decided that insanity, and consequent inability to understand the moral obloquy of the act, saved the policy.[36]

(3[b]) *Settlement and the Beneficiary*

Diverse, and sometimes clashing, legal values affected the status of the policy's proceeds. On one hand, the tradition of freedom of contract reinforced the policyholder's right to choose the recipient of his insurance. And the beneficiary, clothed with a vested interest in the policy and a widows-and-orphans image profoundly attractive to courts and legislatures, might expect to be allowed free assignment of his or her policy equity.[37] But the growing conviction that

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113 S.W. 836 (Ky. Sup. Ct. 1908); *N.Y.L.* v. *Curry*, 72 S.W. 736 (Ky. 1903); *Mut.* v. *Gorman*, 40 S.W. 571 (Ky. 1897); *Crook* v. *N.Y.L.*, 75 Atl. 388 (Md. 1910); *Krause* v. *Equit.*, 58 N.W. 496 (Mich. 1894); *Raymond* v. *Met.*, 86 Mo. App. 391 (1902).

[34] Amrhein, *Liberalization*, pp. 196–237; L. G. Fouse, "Policy Contracts in Life Insurance," American Academy of Political and Social Science *Annals*, vol. XXVI (1905), pp. 219–221.

[35] *Ritter* v. *Mut.*, 169 U.S. 139 (1898).

[36] William R. Vance, "Suicide as a Defense in Life Insurance," *Yale Law Journal*, vol. XXX (1921), p. 401; Philip J. Maguire, "The Suicide Clause in Life Insurance Policies," *Albany Law Journal*, vol. LXIV (1902), pp. 279–285; George Sawyer, "The Suicide Clause in Life Insurance Contracts," *Central Law Journal*, vol. LII (1901), pp. 107–111.

[37] Alexander H. Robbins, "The Vested Interest of a Beneficiary Under a Policy of Life Insurance," *Central Law Journal*, vol. LIII (1901), pp. 184–189; "Life Insurance Policies," *National Corporation Reporter*, vol. XIII (1896), p. 133; Richards, *Insurance* (1912), pp. 79–80. In 1922 one authority discussed the role of a beneficiary's vested rights as an American invention which, he implied, had gone too far. He discerned a retrogression to the view that, except for statutory protection of women and children, the beneficiary

life insurance performed a social function too important to be corrupted by abuse demanded that these rights be circumscribed.

The courts worked out this controversy within the legal confines of insurable interest and assignment. The doctrine of insurable interest had an important place in turn-of-the-century insurance law.[38] Its praiseworthy function was to prevent wagering on the insured's life. This implied that indemnification and not speculation was the ultimate purpose of the life contract; but the almost universal judicial view was that the insurance policy was *not* a contract of indemnification. Such illogic led one authority to attack the whole concept of insurable interest as "false, artificial, and confusing." Significantly, later experts resolved the issue in favor of the doctrine's social utility by stressing the absurdity of refusing to view the policy as a contract of indemnity.[39]

The concept of assignment further complicated beneficiary litigation. The right of the insured – or of the beneficiary – to transfer the policy's benefits to someone else found considerable support in the common law of contracts: specific policy provisions also allowed it.[40] Yet an assignment could run counter to the doctrine of insurable interest. In what again seemed to contemporaries to be a tortured mass of conflicting opinions, the courts tried to balance the public stake in morally acceptable life insurance with the commercial nature of the policy contract.[41]

The great companies' settlement litigation often involved several beneficiary claimants, or beneficiaries and assignees, or beneficiaries and estate executors. Frequently the firms themselves had little real stake in the issue, except insofar as their policy settlement with one claimant aroused the ire of another. To escape involvement, the industrial firms put "facility of payment" clauses in their contracts which set up classes of beneficiaries (e.g., relatives, creditors), denied the vested rights of any individual beneficiaries, and specified

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would have no rights until the policy matured. William R. Vance, "The Beneficiary's Interest in a Life Insurance Policy," *Yale Law Journal*, vol. XXXI (1922), pp. 344–345, 360. Cooke, *Life Insurance*, pp. 137–146, "Note on Statutory Protection of Rights of Beneficiary," emphasized New York's protection of the rights of an insured's wife and children. Compare Richards, *Insurance* (1892), p. 577, and *ibid.* (1912), pp. 711–713, on the growth of legislative protection of beneficiaries.

[38] George D. Harris, "Insurable Interest in the Life of a Person," *Central Law Journal*, vol. LII (1901), pp. 381–386; Edwin W. Patterson, "Insurable Interest in Life," *Columbia Law Review*, vol. XVIII (1918), p. 421; Cooke, *Life Insurance*, pp. 90–106; Roger W. Cooley, *Briefs on the Law of Insurance* (St. Paul, 1905), pp. 244–329.

[39] Cooke, *Life Insurance*, p. 90; Cooley, *Insurance*, pp. 85–97; Eric Collins, "The Doctrine of Insurable Interest in Illinois as Applied to Life Insurance," *Chicago-Kent Review*, vol. IX (1931), pp. 163–164.

[40] Cooley, *Insurance*, p. 1080; James M. Hudnut, *History of the New-York Life Insurance Company 1895–1905* (New York, 1906), p. 30.

[41] James T. Ford, "Validity of Assignments of Life Insurance Policies to Persons Having No Insurable Interest in the Life of the Insured," *Central Law Journal*, vol. LVIII (1904), p. 185; Richards, *Insurance* (1912), pp. 50–54; Cooley, *Insurance*, pp. 262–278.

that payment of the policy benefits discharged the company's obligation.[42]

But the courts did not often allow company disengagement; the firms frequently had to face litigation.[43] Strikingly, a heavy proportion of settlement decisions went against them. The judicial system clearly was readier to decide against the insurer at the end of the policy contract cycle, when the equity of the beneficiary was at its peak, than in the earlier stages, when the company's burden was heaviest.

Settlement and Deferred Dividends

Much of the late nineteenth-century success of the New York Life, the Equitable, and the Mutual was due to heavy sales of deferred dividend (tontine) policies. These contracts matured in large numbers around the turn of the century. The disparity between the glittering prospects originally held out to purchasers, and the payments actually made, led to considerable litigation.[44] The prevailing judicial attitude was *caveat emptor;* holders of such speculative policies could not engage the courts' favor. But this view only underlined by contrast the judicial propensity in other areas of settlement litigation to keep in mind the social values of life insurance.

C. THE AGENT

(1) *The Agent and the Insured*

The pressures of competition and the drive for bigness meant that insurance agents were under special compulsion to achieve

[42] *Ibid.*, pp. 3740–3741. This device was upheld in *Kelly* v. *Pru.*, 127 S.W. 649 (St. Louis [Mo.] Ct. App. 1910); *Brooks* v. *Met.*, 56 Atl. 168 (N.J. 1903); *Brennan* v. *Pru.*, 32 Atl. 1042 (Pa. 1895); and *Thomas* v. *Pru.*, 24 Atl. 82 (Pa. 1892). The New York Life's use of pleas of avoidance in representative years was as follows:

Year	*Interpleaders*	*Garnishments*
1895	2	10
1900	5	15
1905	3	28
1910	15	19

[43] For rejections of company attempts at avoidance, see *N.Y.L.* v. *Freund*, 35 Chi. Legal News 267 (Cook County [Ill.] Ct. 1903); *Pru.* v. *Godfrey*, 72 Atl. 456 (N.J. Ch. 1909); *Nixon* v. *N.Y.L.*, 98 S.W. 380 (Tex. 1907); *Lateer* v. *Pru.*, 72 N.Y. Supp. 235 (Sup. Ct. 1901); *Golden* v. *Met.*, 55 N.Y. Supp. 143 (Sup. Ct. 1899); *Stevenson* v. *N.Y.L.*, 41 N.Y. Supp. 964 (Sup. Ct. 1896); *Lennon* v. *Met.*, 45 N.Y. Supp. 1033 (N.Y. City Ct. 1897); *Sampson* v. *Met.*, 36 Pa. County Ct. R. 481 (Phila. 1909).

"Courts have always set their faces against an insurance company, which, having received its premiums, has sought by a technical defense to avoid payment." *Mut.* v. *Hill*, 193 U.S. 551 (1904); cf. Davies, *Law of Life Insurance*, pp. 10–11.

Besides the preponderance of anti-company decisions, no patterns of judicial policy-making are discernible in beneficiary decisions. An almost case-by-case equity, weighted toward the beneficiary, seems to be the working rule.

[44] Ellerbe W. Carter, "Suits for Accounting on Tontine Life Insurance Policies," *Virginia Law Review*, vol. II (1914), pp. 23–25; Herbert H. Reed, "Distribution of Surplus by Insurance Companies," *American Law Review*, vol. XLII (1908), pp. 12–24.

volume at any cost. Often this meant on-the-spot contract modifications: informal waivers of application requirements, rebates on premium payments, the acceptance of premium notes.[45] Litigation frequently raised the question of the companies' responsibility for these arrangements. Like any corporate agent, the insurance solicitor was essentially the spokesman of his company and subject to its control. As a logical corollary, firms were traditionally held to strict accountability for their agents' acts. This view dominated nineteenth-century insurance agency law, and led many companies to fill their application and policy forms with provisions designed to place the burden of the agent's actions on the policyholder. The result was a web of contract stipulations which resembled the strict warranty in its threat to insurance purchasers.[46]

The juridical response was much the same as in the case of the warranty: to hold the companies to "a more than ordinarily stringent rule of responsibility." Because this approach had to lead a *sub rosa* existence within the accepted framework of agency law, the sum of relevant cases seemed a mass of "hopelessly conflicting decisions which can not be reconciled on any theory other than the desire of the courts to do justice in the particular case." [47] But, as elsewhere, a social purpose underlay the surface chaos. In the companies' litigation dealing directly with an agent's acts or statements, a heavy majority of decisions went for the insured.

(2) *The Agent and the Company*

The same pressures of expansion and competition which so often made the agent's acts a source of litigation also generated justiciable issues between the solicitor and the employing company. Responsive as the courts were to the needs of individual petitioners in policy litigation, they were not yet ready to look upon the engagements of an employee with his employer in the same light. By a two-to-one ratio, the courts found for the companies in this litigation. This callousness suggests how far the courts had yet to go in labor deci-

[45] Stalson, *Marketing Life Insurance*, pp. 508–537.

[46] William R. Vance, *Handbook of the Law of Insurance* (St. Paul, 1904), pp. 298–305; Charles B. Elliott, *A Treatise on the Law of Insurance* (Indianapolis, 1907), pp. 128–129, 138; Richards, *Insurance* (1892), p. 93.

[47] Richards, *Insurance* (1892), p. 86; Elliott, *Insurance*, pp. 138, 145; John W. May, *Insurance*, 3d ed. (Parsons, Boston, 1891), vol. I, p. 210. Again, legislative enactments supplemented the courts' work by making the solicitor always the agent of the insurer, forbidding rebates, and making notice to the agent notice to the company. Richards, *Insurance* (1912), pp. 686–687; Vance, *Insurance*, pp. 299–301; Patterson, *Insurance Commissioner*, pp. 157–183. The courts supported this work: "It would be quite preposterous to say that, while the legislature could in the exercise of its legitimate authority regulate these corporations and prescribe the terms under which they may exist and do business, yet it could not by similar laws regulate and control the conduct of their agents." *People* v. *Formosa*, 30 N.E. 492 (N.Y. 1892).

sion-making; it also accentuates how far, in other life insurance litigation, they had already come.

IV

No doubt turn-of-the-century life insurance decisions, as critics said, made for confused and mistaken law.[48] But out of the seeming chaos emerged social sense and purpose: the order of equity, if not the equity of order. The courts attained a quantitative balance by deciding for and against the great companies in roughly equal measure. And by emphasis on the law's equity rather than its letter – by legal reformation through exceptions – the courts expressed their views on the public interest in life insurance qualitatively as well. By doing so much to turn insurance decision-making into a case-by-case process, the courts arrogated to themselves considerable control over the business. But the total impact of their work was to keep the insurance contract a viable instrument of a flourishing business, not an awesome – and lifeless – bulwark of corporate oppression. If insured, beneficiaries, agents, companies, legislatures, insurance commissioners – and courts – had no very clear idea of the form and limits of life insurance law, this was just as well. For in so volatile a society, permanence in the law might quickly be altered by events from distilled wisdom to empty rigidity.

[48] "There is too much tendency on the part of judges to construe away valid provisions in contracts of insurance and indemnity, and thus reach some more equitable conclusion. The result is much 'hard case' law, which is mostly bad law, and always variable law." J. Pardee in *Jackson* v. *Fid. & Cas. Co.*, 75 Fed. 359 (5th Circ. 1896) – appropriately, in dissent.

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Multiple-Level Organization of a Great Railroad

Concluding his sophisticated analysis of the Pennsylvania Railroad's organizational structure (cf. BUSINESS HISTORY REVIEW, *Summer, 1961), the anonymous reporter for the* RAILROAD GAZETTE *described in a supplementary article, reproduced here following Professor Jenks' interpretative comments, the decentralized management of the Pennsylvania's western divisions.*

Railway journals in the 1880's did not view the rise of large railway systems by merger and other forms of expansion as necessarily against the public interest. But they voiced reservations as to the possible efficiency with which they could be managed. Their readers were aware that in most cases there was an attempt to centralize the extended networks into corporate and operational unity. It was pointed out that the Chicago, Milwaukee & St. Paul, the Union Pacific and the Southern Pacific had absorbed all of their lines, owned or leased, into one grand system under a common head.[1] But the Burlington, Pennsylvania and Vanderbilt systems were operated in several units, each with its set of general and staff officers, vying in friendly rivalry in the pursuit of traffic. This course necessarily gave rise to a differentiation of executive functions on several levels. In view of the interest in the three-level type of organization described by Chandler and Redlich in a recent issue of the *Review*, it is relevant to search the journals for the information they made available to their readers as to the structural details of the decentralized concerns.[2]

It is only the extended system of the Pennsylvania for which there has been found anything like a comprehensive contemporary public account. For it we are indebted to Charles L. Condit, an employee of the *Railroad Gazette*, whose "Historical Development

[1] "Two Methods of Operating Great Railway Systems," *Railway Age*, vol. 10 (1885), pp. 710–711.

[2] Alfred D. Chandler, Jr., and Fritz Redlich, "Recent Developments in American Business Administration and their Conceptualization," *Business History Review*, vol. XXXV (Spring, 1961), pp. 1–27.

of the Organization of the Pennsylvania Railroad" appeared in the last issue of the *Review*.[3] This account, reprinted below, describes at least three different patterns adopted by the Pennsylvania in effecting a working organization for its relations with the dozens of corporate units over which it had acquired control. The arrangements described for the lines in Pennsylvania and Maryland seem to involve no differentiation or structuring of authority not illustrated by the organization of the parent company. But Condit's report upon the systems west of Pittsburgh assembled under the proprietorship of the Pennsylvania Company [*sic*] brings out one novel feature.

At one level, for operative purposes, clusters of short lines, many still retaining their corporate identity, had been grouped into divisions, each of which coordinated transportation rolling stock and maintenance of way under a division superintendent. There were similar regional groupings of traffic and accounting officers. These divisions in turn had been assembled into two grand, nearly homologous systems (1,500 miles or so apiece) each with its own set of general operating officers, commonly referred to as the Northwest and Southwestern systems. These two systems and their respective officers were coordinated under an absentee president and three identical vice presidents resident at Pittsburgh. The vice presidents held no office in the parent company. They acted individually as the supervising heads of vast functional departments; but they sat collectively with the president of the whole system and with two other directors as committees of the board of the Pennsylvania Company, and thus exercised full immediate authority at Pittsburgh over all that went on to the west. Condit views this as an alternative to the establishment of a second president at Pittsburgh and suggests that as a device it formalized the original Pennsylvania informal pattern of cooperative decision.

Taken by itself Condit's account might make it appear that the only organizational connection of the western systems with the parent company was that of a personal union, the same man being president of all of them. This impression would be misleading. Reference to Condit's "Historical Development" indicates that all of the vice presidents of the Pennsylvania Railroad Company were expected to assist the president in more or less specific ways with respect to all of the lines in which that company had an interest. Thus the president did not stand alone with respect to the western

[3] Leland H. Jenks, "Early History of a Railway Organization," *Business History Review*, vol. XXXV (Summer, 1961), pp. 153–179.

systems. Moreover, three of the vice presidents of the parent company were directors of both western corporations; and all of the other directors of the latter were either officials of one of the companies or directors of the parent company or both. On the other hand, the financial vice president of the Pennsylvania Company from 1881 was also a director of the Pennsylvania Railroad Company. One source suggests that subordinate officers on the western lines also made reports to department heads of the parent company in Philadelphia.[4] This complex network of formal relations scarcely conceals the fact that effective entrepreneurial control over the western systems was exercised on behalf of the parent company by a variable and informal group, composed of top executives and at most two nonofficial directors.

Contemporaries had no comparable insight into the top-level organization of other decentralized systems. The notable memorandum of Charles Perkins of the Burlington has not yet been published in its entirety.[5] The Vanderbilt solution was based on the maintenance of the New York Central, the Lake Shore and the Michigan Central as distinct corporate and operational entities, linked by common stock ownership. It seems that after the retirement of W. H. Vanderbilt, over-all policies were formulated by committees consisting of board chairmen or presidents with a variable lot of other officials.[6]

It will be noted that in praising the Pennsylvania arrangements as an outgrowth of the principle of cooperation, Condit does not claim for them the merit of short-run economy. He prefers them to many top-heavy systems for their traffic-producing potentialities. In his last identifiable contribution to the *Gazette*, he suggested that even these advantages might be procured by other means.[7] One company, he urged, might own any number of roads each of 500 miles in length under separate managers. The company could adopt rules and regulations to secure uniformity and cooperation between these lines with respect to traffic and rates. But he said nothing further as to the functions of such a company. It would appear, therefore, that what really interested Condit in the decentralized approach to organization was not the way in which it

[4] *Railway Age*, vol. 7 (1882), p. 216.

[5] "Organization of Railroads" (1882). I have been able to examine a copy in the Overton-Cunningham Collection, Notebook "Y", pp. 52–68, through the courtesy of Richard Overton. For excerpts, cf. Thomas C. Cochran, *Railroad Leaders* (Cambridge, 1953), pp. 435–436.

[6] Cochran, *Railroad Leaders*, esp. correspondence of Henry Ledyard.

[7] "An Organization for an Economic Management of Railroads," *Railroad Gazette*, vol. 15 (1883), pp. 458–459. Condit left the service of the *Gazette* toward the end of 1883 to take charge of the business affairs of *Science*, the weekly then being subsidized by Alexander Graham Bell.

was set up to carry out entrepreneurial functions, but its operational autonomy. Other writers in the 1880's also published generalized models for the decentralized organization of complex railway systems. Their focus similarly was upon securing operational efficiency by dispersing the authority often concentrated in vast functional departments. Like Condit they wanted "to see the future ambitions . . . of railroad officials turned toward the perfecting of their business and less toward their own personal aggrandizement." [8]

The Relations of the Pennsylvania Railroad Company to Other Organizations in which it holds an Interest [9]

One of the most interesting features in a railroad organization is its method of extension to those companies and lines over which it obtains control. Capability of development is in this way tested as in no other. Direct control is probably the simplest and most economical method of operating a small road; but direct control by one head issuing orders for all the various operations of a road finds its limits tested by economy merely. It is often forgotten that capacity for future growth is obtained at some immediate loss. Without some division and sub-division of authority there is no loss to the future, as exists in all organized bodies for reproduction, and there is little power of growth sacrificed to future efficiency.[10] Organization of any kind looks forward to a future of continued action and to emergencies.

The strength and soundness of the principles on which the Pennsylvania Railroad was organized have been fully tested in its method of control over lines which it, in fact, may be said to have made part of its system. Of the lines east of Pittsburgh, the Northern Central alone will be spoken of in detail.

THE NORTHERN CENTRAL RAILROAD COMPANY

This company is a distinct and separate organization united to the Pennsylvania Railroad Company by control of offices by persons holding similar positions in both companies. Its President, its General Manager, General Superintendent of Motive Power, its Chief Engineer, its General and Assistant Solicitors, its General Freight and Passenger Agents, are the same persons filling like offices on the Pennsylvania Railroad.[11] Other

[8] See esp. Henry S. Haines. "Efficient Railway Management," *Railway Review*, Sept. 13, 27, and Oct. 4, 1884, reproduced in his *American Railway Management* (New York, 1897), pp. 153–186; "Supervision of Details," *Railway Review*, vol. 24 (1884), p. 529; Charles Latimer, "Railroad Organization," *Railway Review*, vol. 26 (1886), pp. 202–204. A more favorable view of the operating possibilities of great systems, based on a short-lived Gould consolidation, is by Richard W. Meade, "Five-Thousand Mile Railway Systems," *Railway Age*, vol. 9 (1884), p. 754; vol. 10 (1885), pp. 4, 20.

[9] Quoted from *Railroad Gazette*, vol. 15 (1883), pp. 45–46.

[10] One of the rare appeals to biological analogy in Condit's writings.

[11] For the distribution of duties, cf. Jenks, "Early History," pp. 170–176.

offices in the organization are filled by gentlemen having no connection with the Pennsylvania Railroad Company, as that of Auditor, Cashier, Purchasing-Agent, Secretary, General Superintendent, Superintendent of Motive Power, and other operating officers; although one division has a Superintendent who is also a General Superintendent of the Pennsylvania Railroad (Philadelphia & Erie Division). Throughout the road the standards and methods used on the Pennsylvania Railroad are adopted, and there is the same system of accounts; but all the relations of account between the two roads are in every respect the same as between the Pennsylvania Railroad and any foreign road. Bills are rendered and paid by draft on the Treasurer of the debtor road. Some of the directors of the Pennsylvania Railroad Company are also members of the board of directors of the Northern Central, which holds its meetings in Baltimore.[13] The Vice-President of the Pennsylvania Railroad Company controlling its transportation, freight and passenger departments is also Vice-President of the Northern Central; but except as regards oversight of moneys expended by the Pennsylvania Railroad Company for the benefit of the Northern Central, the other Vice-Presidents of the former company have no relations with the latter.

Nevertheless it will be seen that in fact the Pennsylvania Railroad Company entirely and in every respect controls the Northern Central, although with full respect to its individuality, and, it should be added, under the sanction of a separate board of directors.

The organization of the Baltimore & Potomac Railroad Company is very nearly a duplicate of the Northern Central's as to all important facts. The same is true, although to a less extent of the Philadelphia, Wilmington & Baltimore Railroad Company, which, however, retains its former President.

THE PENNSYLVANIA COMPANY

The lines and properties controlled by the Pennsylvania Railroad Company west of Pittsburgh furnish a new set of facts which are met by a new adaptation of the principles of the parent organization.

Distance, from its locality, is itself an important fact affecting the control of any system or portion of system by a central authority. When the Pennsylvania Railroad Company had acquired control of the more important lines forming the northwest and southwest systems (into which the lines west of Pittsburgh are divided) it was found necessary for this and other reasons to have a separate organization. In 1870, the Pennsylvania Company was formed, and to it the Pennsylvania Railroad Company transferred its interests "owned, controlled and operated" in lines and properties west of Pittsburgh, although the Pittsburgh, Cincinnati & St. Louis Railway Company continues as a distinct organization in which the Pennsylvania Company holds a controlling interest. In return for this transfer the Pennsylvania Railroad Company received stock of the Pennsylvania Company. Here we have a triple set of organizations, united to each other, so far as personal control is concerned, only by

[13] These included the two Pennsylvania vice presidents concerned with finance, receipts and expenditures. They also sat on the boards of the two great western systems, analyzed on following pages.

directors who hold office in both companies,[13] and by the President of the Pennsylvania Railroad Company, who is also President of the Pennsylvania Company and of the Pittsburgh, Cincinnati & St. Louis Railway Company. The offices of First, Second and Third Vice-Presidents, and of Assistant Comptroller, of Secretary, Assistant Secretary, General Counsel, Assistant Counsel, General and Assistant Passenger and Ticket Agent are held by the same persons in both the Pennsylvania Company and in the Pittsburgh, Cincinnati & St. Louis Company.

In general, each system is operated by the methods in use on the Pennsylvania Railroad; but the facts of the road make it necessary, or at least wise, that these methods should be extended gradually.[14] There are legal difficulties in the way of organic union of the two systems, and so extensive a net-work of lines has been found to require time for any practical amalgamation. Although, therefore, the original organization common to both provided for a General Manager who should be the same person for each; it has been found more convenient to leave this office vacant and place the operation and maintenance of each system under a Manager responsible to the first Vice-President.[15] The Manager of each system has a Chief Engineer and a Superintendent of Motive Power, who form his staff. There are no general superintendents, division superintendents being responsible directly to the Manager. Each division superintendent has an engineer of maintenance of way under whom are supervisors. The Chief Engineer is strictly a staff officer of the Manager, and has no control over the division superintendents.[16] In practice, however, there is a relation between this officer and the superintendents as regards road and engineering matters, which we are inclined to regard as theoretically the best solution of the problem involved in the distribution of responsibility and control over maintenance of way.

There is no doubt that a road may be successfully managed by a variety of methods of distributing authority, especially as regards road-bed; if, however, the organization be looked at from the standpoint of emergency involving persons and personal relations of all kinds, it must be judged by the principles involved; for in time these principles will surely bear fruit of one kind or another.

One of the soundest principles of organization of human beings for any purpose is that control and responsibility must go together; and if the superintendent of a division is to be made responsible for its expense as well as its condition, he must control both, and whatever is necessary thereto — speaking in a general way.

If the road be divided into an engineering and a transportation department with a separate control for each, this cannot be possible. It is possible, but only to a degree, if the officers of maintenance of way are

[13] There were ten men who were directors in all three companies, a majority of whom were or had been officers of at least one of the companies.

[14] The auditing departments of the systems were still in the process of consolidation in 1884. *Railway Review*, vol. 24 (1884), p. 668.

[15] This arrangement was only temporary. There had been a common general manager in 1881; and the office was restored in September, 1885. *Railroad Gazette*, vol. 13 (1881), p. 501; vol. 17 (1885), p. 637.

[16] "Staff" is here used as in "line-and-staff" patterns of organization, for which succeeding paragraphs provide a rationale.

placed under the control of the division superintendent, but subject through him to the orders of the engineering department; nevertheless even here we have a certain separation of control and responsibility. If, however, as well, the Chief Engineer be a staff officer of the Manager, and division superintendents be required to advise with him on all important matters connected with the road, the benefit of his knowledge and experience may be obtained without division of responsibility as to expenses and as to supreme control. It should be noted that we are looking at the matter in the light of possible difficulties and supposing a given end; practically, as we have said, individual roads are worked successfully on a variety of plans.

The accounts of both companies are kept on a system which has already been described in the *Railroad Gazette*.[17] To the First Vice-President (as to the Second Vice-President of the Pennsylvania Railroad) are responsible, both the departments making rates and the departments controlling transportation; and, as in the parent organization, the accounting department is independent, finding its head in a Vice-President. The Purchasing Agent is responsible to each Manager and does not report to a committee on supplies as in the Pennsylvania Railroad and Northern Central organizations.

The board of directors of the Pennsylvania Company as individuals would find it difficult to meet on call in Pittsburgh; some system of control which should be intermediate between the Board (including the President, also resident at a distance) was found to be necessary; and here the difficulty was met by formal recognition of a principle, informally everywhere existing in the Pennsylvania Railroad organization, and from which arises that wisdom of action which seems personal, but is always co-operative. There are two committees of five formed by the same persons, the First Vice-President being chairman of the Executive Committee, the Second Vice-President of the Finance Committee. These committees are composed of the three Vice-Presidents and two other members of the boards of the two companies (Pennsylvania Company and Pittsburgh, Cincinnati & St. Louis Company), and act as a board of control over all officers and in all affairs as representatives of the President and the board.[18] In fact, however, as will be seen by the list, this control is a formal method of organizing the co-operative strength and wisdom of the immediate executive officers and securing its influence upon the acts of each. Of these committees, and always in ascendancy, the President of the entire system of the Pennsylvania Railroad Company is *ex officio* a member.

If the policy of immediate control by one hand was the organic principle of the Pennsylvania Railroad, it is easy to see that the extension of this principle to so large a system as that west of Pittsburgh might result in two presidents, one at Pittsburgh, as well as one at Philadelphia. But the fundamental principle being organization and cooperation, a control at Pittsburgh becomes possible, wise and efficient, but not personal.

The little Allegheny Valley Railroad offers an example of a still different type of control. Nearly all of its board of managers are officers of

[17] C. L. C., "Freight Accounts," *Railroad Gazette*, vol. 14 (1882), pp. 535, 551.

[18] Nearly all of the directors of the western corporations were directors of the parent company. A majority were officers in one part or another of the super-system.

the Pennsylvania Railroad; and have an active influence through the President of the board. The road, however, retains not only its individuality, but except in certain features of the road-bed and tracks, is not conformed to Pennsylvania standards. Nevertheless, as we have indicated, its policy is determined by the Pennsylvania Railroad, which thus by methods adapted to each set of facts extends its influence as an organization throughout one of the most, if not the most, extensive railroad system of the world.

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Portrait of a Robber Baron: Charles T. Yerkes

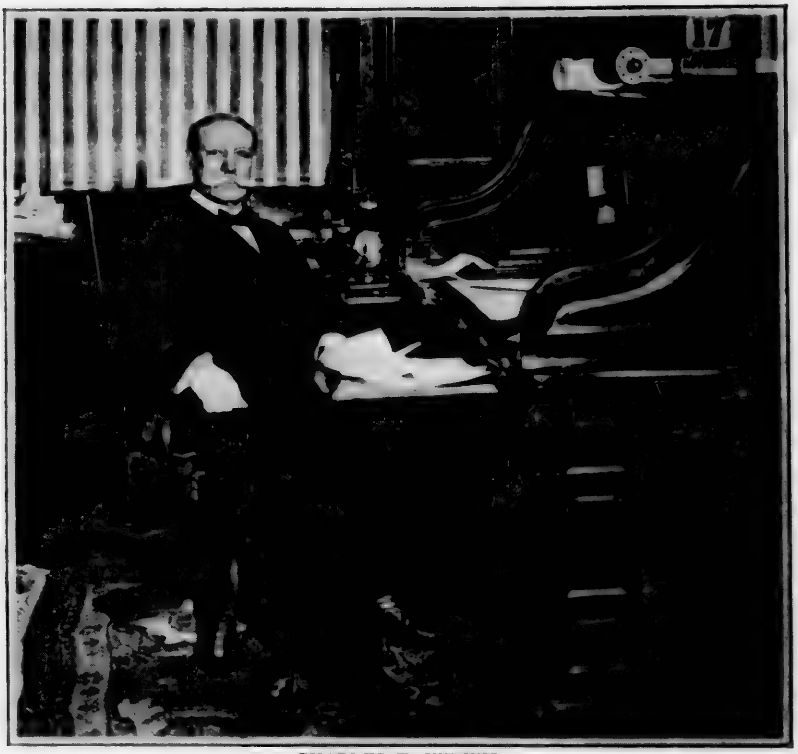
Chicago's traction king was a master of corruption and financial legerdemain, but his contempt for public opinion proved at last to be his undoing. Out of such flambuoyant transgressions great reform movements grew, and the character of all big business operators was made suspect.

When in the late 1890's the battle lines of Chicago's franchise war were drawn, there stood on one side an aroused citizenry and on the other the lone figure of Charles Tyson Yerkes, Jr. Yerkes, the heretofore undisputed traction king, was a veteran of in-fighting whose career had earned him an unenviable reputation and more enemies than friends. But having climbed to the peak of power and wealth, Yerkes found himself arrayed against civic reformers who were determined to drive him from the city.

"The secret of success in my business," declared Yerkes, "is to buy old junk, fix it up a little, and unload it upon other fellows." [1] Legend has it that Yerkes first employed these business tactics in 1847 at the age of ten. While wandering about his native city of Philadelphia, he came upon an auction where the brand of soap used in his home was among the items to be sold. He immediately went to see the family grocer who promised to pay 9 cents a pound for all the soap Yerkes could supply. He next went to his father, president of the Kensington National Bank, and borrowed $18 – which he was to pay back in soap. Yerkes returned to the auction room where the gathered businessmen were so amused to see a youngster haggling for soap that they allowed him to buy all he wanted at 6 cents a pound.[2] In later years Yerkes applied essentially the same technique in capturing control of Chicago's street railways.

[1] Burton J. Hendrick, *The Age of Big Business: A Chronicle of the Captains of Industry*, vol. XXXIX, *Chronicles of America Series*, Allan Johnson, ed. (New Haven, 1919), p. 126.

[2] Max Lerner and Mary F. Holter, "Charles Tyson Yerkes," *Dictionary of American Biography*, vol. XX (New York, 1936), p. 609; Josiah G. Leach, *Chronicle of the Yerkes Family with Notes on the Leach and Rutter Families* (Philadelphia, 1904), p. 191; Edwin LeFevre, "What Availeth It," *Everybody's Magazine*, vol. XXIV (June, 1911), p. 837.



CHARLES T. YERKES

The records are not precise, but at about the age of fifteen Yerkes left school to work for the commission brokerage firm of James P. Perot & Bros. As an apprentice he was not to receive a salary, but his employers were so impressed with his zeal and efficiency that at the end of the first and second years they gave him substantial bonuses. After three years they promoted him to cashier and chief bookkeeper. Despite this rapid rise to a position of consequence, Yerkes was not content. In 1859, he established his own brokerage office and gradually expanded into the field of investment banking. By the age of twenty-five, Yerkes had achieved both financial and social success, and had married the daughter of a well-to-do Philadelphia family.[3]

He first earned a reputation as a financial genius in 1868. In that year Philadelphia was unable to sell her municipal bonds, and Yerkes, through an arrangement with the city treasurer, undertook to market them. By means of his own purchases, he was able to

[3] Wayne Andrews, *Battle for Chicago* (New York, 1946), p. 177; LeFevre, "What Availeth It," p. 837; Lerner and Holter, "Charles Tyson Yerkes," p. 609.

push the price up to par value and market the entire issue. This made Yerkes a favorite among the municipal officials, who thereafter did business through his office. All went well until October, 1871. Yerkes had extended his financial operations too far and was heavily in debt to the city for bonds sold on its account. Yerkes was not overly concerned, for the usual procedure was to settle with the city at the end of each month. At this juncture, however, the "Great" Chicago fire broke out and created a minor financial panic that was felt in the East. The city officials, in fear of the possible effects of the panic, demanded immediate settlement. Yerkes, caught short, was unable to meet the demand. His family biographer suggests that Yerkes could have paid the city, but refused, for "by doing so he would give the city preference over his other creditors, and this he was unwilling to do." [4]

Whatever the reason, Yerkes was charged with embezzlement, tried, and sentenced to jail for a term of two years and four months, but he was pardoned after serving seven months of his sentence.[5] Yerkes was welcomed back into the business community by his former colleagues who agreed that the charges against him were "technical," and that what had befallen him could easily have happened to anyone. Once released from prison, Yerkes hastened to recoup his fortune. This he did by a series of shrewd investments and by being on the right side of the market when Jay Cooke and Company collapsed in 1873. Within a short time he paid back all his former creditors, including the city. This last gesture was somewhat magnanimous, for the City Council had passed a resolution cancelling his debt. "I don't owe a dollar in Philadelphia," was one of Yerkes' favorite boasts.[6]

Although Yerkes once again possessed a modest fortune, he was no longer happy in Philadelphia. His marriage, after a long series of crises, reached a breaking point when incessant gossip linked his name with the daughter of a leading politician. As a consequence, he left Philadelphia and traveled about the country. In 1880, Yerkes moved to Fargo, North Dakota, where, after fulfilling the brief residence requirement, he obtained a divorce. While in Fargo he successfully speculated in real estate, but Fargo proved much too

[4] Emmett Dedmon, *Fabulous Chicago* (New York, 1953), p. 259; Leach, *Chronicle of the Yerkes Family*, p. 192; Henry K. Webster, "From Yerkes to Dunne," *American Magazine*, vol. LXI (April, 1906), p. 685; Charles E. Russell, "Where Did You Get It, Gentlemen?," *Everybody's Magazine*, vol. XVII (Sept., 1907), p. 349.

[5] *Philadelphia Public Ledger*, Oct. 20, 1871, Sept. 28, 1872; *New York Times*, Dec. 30, 1905; Lloyd Wendt and Herman Kogan, *Lords of the Levee: The Story of Bathhouse John and Hinky Dink* (New York, 1944), p. 36.

[6] *Chicago Daily Tribune*, Dec. 30, 1905; Andrews, *Battle for Chicago*, p. 178; Webster, "From Yerkes to Dunne," p. 685.

small to claim his talents for any length of time. In 1881, he took up residence in Chicago.[7]

Upon his arrival Yerkes opened a stock and grain brokerage office in the Board of Trade, but despite a prospering business he was soon busily engaged in making preliminary arrangements for his ultimate control of the local traction field. In this realm he was no novice. At the age of twenty-two he and some friends had purchased control of the run-down Philadelphia Seventeenth and Nineteenth Street Passenger Railway Company and had converted it into what was considered a first-class road. But his most notable venture in Philadelphia traction came shortly after his release from prison in 1875. For 4 cents on the dollar Yerkes purchased control of the little-used and decrepit Continental Passenger Railway Company, which prospered mightily during the Philadelphia Centennial Exposition of 1876. On the basis of this traffic Yerkes issued some $20,000 worth of bonds. "With the proceeds" of this sale, according to one account, "he secured another link of railroad and issued more bonds on that."[8] Under his management Continental's stock shot up from $15 to $100 per share. When Yerkes left Philadelphia he sold his street railway holdings at a considerable profit.[9]

Thus, when Charles T. Yerkes entered the Chicago traction field in 1886, he was no neophyte. That Yerkes knew what he was about can best be attested to by the fact that within ten years he had amassed a personal fortune estimated at $29,000,000. His gift of a fountain to Lincoln Park cost $23,000, and his donation to the University of Chicago of what was then the world's largest telescope required an outlay of over $1,000,000. He owned a $1,000 carriage, a $1,700 piano, and a $50,000 tomb in Greenwood Cemetery. In 1896, he had one of the world's finest art collections which included two Rembrandts, several Rubens, a Vandyke, a Turner valued at $67,000, and a portrait of himself said to be worth $30,000. His unique collection of Oriental rugs surpassed the collection of the Shah of Persia. When Yerkes went East on business he stayed at his $1,500,000 New York house on Fifth Avenue and slept on an $80,000 bed which formerly belonged to the King of Belgium. Each of the twelve stone steps leading to the entrance of his New York home cost $1,000; the bathroom alone was said to have cost $30,000.[10]

[7] *Chicago* [*Evening*] *Journal*, Jan. 29, 1898; Lerner and Holter, "Charles Tyson Yerkes," pp. 609–610; Leach, *Chronicle of the Yerkes Family*, p. 194.

[8] Russell, "Where Did You Get It," pp. 349–350.

[9] *Tribune*, July 9, 1899, Dec. 30, 1905.

[10] *Ibid.*, March 21, 1890; Oct. 12, 1892; Feb. 19, Dec. 20, 1895; Dec. 27, 1896; Jan. 10, May 16, 1897; Dec. 30, 1905; State of Illinois, Bureau of Labor Statistics, *Ninth Biennial Report, 1896* (Springfield, 1896), pp. 60–61; Lloyd Lewis and Henry

In this same ten-year span in which Yerkes was amassing a personal fortune, he was also effecting a remarkable transformation in the city's transportation facilities. To be sure, Chicago's growth demanded a commensurate expansion in streetcar lines, but this fact does not detract from Yerkes' accomplishments. At the very outset he began a program of modernization, first replacing the horse-drawn cars with cable cars, and then later converting to electricity. The total mileage of track in both the west-side and north-side divisions of the city were expanded from 64 miles in 1886 to 575 miles in 1896. He controlled 48 separate lines, unified the service, and constructed the Union Elevated "Loop" around the business district of Chicago.[11]

But if Yerkes was a builder, he was nothing less than a genius at financial manipulation. Few Chicagoans knew enough about high finance to understand what Yerkes was doing, but many agreed with William Kent, who called Yerkes "a buccaneer from a Pennsylvania penitentiary."[12] Essentially, Yerkes' techniques were to borrow money, obtain leases, offer dividend guarantees, juggle accounts, create subsidiary corporations, and then issue watered securities. His bookkeeping methods and business tactics were so complicated that a clear account of how he captured control of Chicago's street railways can scarcely be made.[13]

Prior to Yerkes' entry into the street railway business of Chicago, the city contained three major traction companies: the Chicago City Railway Company, the West Division Passenger Railway Company, and the North Chicago City Railway Company. They were independently owned by local investors, and operated in different parts of the city. The north-side and west-side companies were controlled by conservative men who were satisfied to earn steady profits and large dividends. They were reluctant to risk the expense of converting their horse-car lines to cable cars, even though the Chicago City Railway Company on the south side of the city had proved that such a conversion was economical in the long run.[14]

Smith, *Chicago: The History of Its Reputation* (New York, 1929), p. 243; LeFevre, "What Availeth It," p. 840.

[11] *Tribune*, Dec. 29, 1895; May 4, 28, Oct. 4, 1896; LeFevre, "What Availeth It," p. 838; "The Death of Charles T. Yerkes," *Street Railway Journal*, vol. XXVII (Jan. 6, 1906), p. 62; *The Economist*, "Street Railway Supplement, 1896" (Chicago, 1896), pp. 7–8; Illinois Bureau of Labor Statistics, 1896, p. 48.

[12] Elizabeth T. Kent, *William Kent: Independent* (n.p., 1950), pp. 131–132.

[13] Chicago City Council, *Report of the Special Committee of the City Council of Chicago on the Street Railway Franchises and Operations* (Chicago, 1898), p. 62; Burton J. Hendrick, "Great American Fortunes and Their Making: Street Railway Financiers," *McClure's Magazine*, vol. XXX (Nov., 1907), pp. 33–48; *Tribune*, May 12, 1895; May 21, 1899.

[14] Webster, "From Yerkes to Dunne," pp. 685–686; Frank A. Vanderlip, "Evils of

This situation presented Yerkes with his opportunity. In March, 1886, from some of the larger stockholders of the North Chicago City Railway Company, he secured an option to purchase one share more than a majority of the company's stock. He made a hurried trip to Philadelphia, where he borrowed enough money from two of his former associates, Peter A. B. Widener and William L. Elkins, to take up the option. Together they formed a new corporation, the North Chicago Street Railroad Company, with Yerkes as president. Armed with the option and the new company, Yerkes next went to see the officials of the North Chicago City Railway Company, and arranged a 999-year lease of their property. Under the terms of the lease, Yerkes' company guaranteed to pay an annual dividend of 30 per cent on the stock of the original company, assume responsibility for operating the streetcar line, and expand and modernize the line by converting to cable. The actual cost of construction, however, was to be paid by the original company.[15]

Having laid the groundwork with an option, a new company, and a lease, Yerkes proceeded to the remaining steps in his well-conceived scheme. First, he exercised his option and purchased the 51 per cent of the stock of the old company, using the funds advanced by Widener and Elkins to do so. Then, in order to pay off the Widener-Elkins loan, Yerkes had his new company, the North Chicago Street Railroad Company, issue $1,500,000 of 5 per cent first-mortgage bonds. No difficulty was encountered in marketing these bonds, for the stock of the old company was used as collateral.[16] Thus, without having spent or risked any of his own money, Charles T. Yerkes came into control of the North Chicago City Railway and the North Chicago Street Railroad. He had simply borrowed money to create a holding company which, in turn, controlled an operating company.

His next move was equally successful. He let the contract for conversion of the line to cable cars to the United States Construction Company, an organization which he had incorporated the day before. Yerkes built the cable line at a cost to himself of $3,000,000, but charged the North Chicago City Railway Company $10,700,000. Despite shoddy work and the use of the cheapest materials, the cost of conversion was so expensive that by the time the work was done,

Over-Capitalization," *The Rand-McNally Bankers' Monthly*, vol. XIV (Feb., 1897), p. 40.

[15] William Kent, "Outline Chicago Traction," undated MS in the Papers of William Kent in the Library of Yale University; hereinafter cited as Kent Papers; Vanderlip, "Evils of Over-Capitalization," p. 40.

[16] Chicago City Council, *Report* (1898), pp. 44–47; Illinois Bureau of Labor Statistics, 1896, pp. 57–58; John A. Fairlie, "Street Railway Question in Chicago," *Quarterly Journal of Economics*, vol. XXI (May, 1907), pp. 377–379.

"the Construction Company owned all but ten shares in the Street Railroad Company, the Street Railroad Company owned a little over half the shares in the original company, the North Chicago City, while this last named company [having agreed by the terms of the lease to pay the cost of construction], besides being mortgaged to the hilt, *owed* the Street Railroad Company something like six million dollars." [17]

In 1887, Yerkes employed almost the same technique to gain control of the lines on the west side of the city. This time, however, Widener and Elkins quietly purchased the stock of the Chicago West Division Railway Company until they had acquired 6,251 shares, a majority of one. Then Yerkes established a new corporation, the West Chicago Street Railway Company, and negotiated a 999-year lease with the original west-side company through Widener and Elkins. Although "the partners were merely dealing with one another" on what was apparently a predetermined scheme, "Widener and Elkins received a fee," one authority has written, "of $5,000,000 for negotiating the lease!" [18]

Under the terms of this lease, Yerkes' West Chicago Street Railway Company guaranteed an annual 35 per cent dividend on the stock of the West Division Company. Using the stock of the West Division as collateral, Yerkes issued $4,100,000 of 5 per cent first-mortgage bonds. Again, conversion to mechanical power was undertaken by the United States Construction Company, which charged the original west-side company $4,000,000 – a sum more than twice the actual value of the conversion.[19]

From this start on the north and west sides, Yerkes expanded to the outlying districts, though never into the south side, where the Chicago City Railway Company remained in the hands of local investors. Whenever Yerkes acquired an existing company he created a new corporation, staffed it with a "dummy" board of directors, and initiated improvements for which additional securities were issued.[20]

Yerkes never consolidated his traction holdings into one company. From the standpoint of revenue such a move was inadvis-

[17] Webster, "From Yerkes to Dunne," pp. 687–688; Vanderlip, "Evils of Over-Capitalization," p. 40. Similar cash and stock transfers occurred when Yerkes continued the modernization by converting from cable to electricity.

[18] Hendrick, *Age of Big Business*, pp. 142–143. In view of the total value of the negotiation, it is difficult to believe that $5,000,000 was paid in commission, though it is quite probable that some commission was paid.

[19] Chicago City Council, *Report* (1898), pp. 46–50; *The Economist*, "Street Railway, 1896," p. 10; Hendrick, "Great American Fortunes," *McClure's* (Nov., 1907), p. 249.

[20] Among the many other companies owned or controlled by Yerkes were the Lake Street Elevated, the Union Elevated, the Chicago North Shore Street Railway, and the Evanston Electric.

able, for it would have meant that passengers could travel from the outskirts to the center of the city for one 5-cent fare. By maintaining separate feeder and main line companies Yerkes could charge separate fares and eliminate transfer privileges. Moreover, by creating new corporations Yerkes was able to float additional securities and drain off further revenue through his construction company. In every instance he issued more stocks and bonds than the actual physical assets of the companies warranted. Three separate and extensive investigations estimated that Yerkes overcapitalized his holdings by a sum varying from $62,754,210 to $72,000,000.[21] "Water" notwithstanding, all of Yerkes' corporations paid dividends of anywhere from 12 to 42 per cent and the price of his stocks remained high.[22]

To be sure, Yerkes was a financial wizard, and yet his success also depended upon his ability to obtain street-railway franchises. Despite his entrepreneurial workmanship, his entire overcapitalized and overcomplicated street railway system would have toppled instantly had it not been for these municipal grants of monopoly rights. But even in this realm Yerkes excelled. He was most adept at bribing aldermen and in obtaining valuable franchises. Yerkes "always got what he wanted" from the City Council, and, in turn, aldermen "became the owners of new race horses, new homes, and new bank deposits."[23] Yerkes played no small part in earning for Chicago the reputation of being the "Boodle Capital of the World."

Yerkes' relations with elected officials and his financial manipulations disturbed many Chicagoans and supplied municipal reformers with ammunition. But Yerkes, seemingly oblivious to the hostility surrounding him, acted in such a fashion that his every move made additional enemies. It appears that Yerkes was rarely responsive to public opinion. "Whatever I do," he declared, "I do not from any sense of duty, but to satisfy myself, and when I have satisfied myself, I know that I have done the best I can."[24]

[21] Chicago City Council, *Report* (1898), pp. 9, 63, 65; Illinois Bureau of Labor Statistics, 1896, pp. 37, 59; Milo R. Maltbie, "Street Railways of Chicago: Report of the Civic Federation Committee," *Municipal Affairs*, vol. V (June, 1901), p. 454; Henry D. Lloyd, *The Chicago Traction Question* (Chicago, n.d., but c. 1903), p. 4. By way of illustration, the Union Traction Company was capitalized at $120,000,000 and as a going concern was worth only $16,000,000.

[22] Illinois Bureau of Labor Statistics, 1896, pp. 59–60; Chicago City Council, *Report* (1898), p. 47; Maltbie, "Street Railways," p. 448; *Tribune*, Jan. 15, 1895; Jan. 14, 1897.

[23] Virgil W. Peterson, *Barbarians in Our Midst: A History of Chicago Crime and Politics* (Boston, 1952), p. 69. Note also, Municipal Voters' League of Chicago, Minute Book of Executive Committee Meetings, August 17, 1896, in the Municipal Voters' League Papers in the Citizens' Association offices, Chicago; *Tribune*, Jan. 29, Sept. 3, Dec. 10, 11, 1895; April 29, Nov. 23, Dec. 27, 30, 1896; Charles E. Merriam, *Chicago: A More Intimate View of Urban Politics* (New York, 1929), p. 20.

[24] *Journal*, Jan. 29, 1898.

Doing his best did not, apparently, mean giving the public adequate and proper service. His street railway cars were poorly illuminated, filthy, unventilated, and worn out. Open cars were frequently used in cold and wet weather, while closed cars were often operated in the summer.[25] Even more irritating to the public was his refusal to operate a sufficient number of cars on any of his lines. In one instance a delegation of citizens from Lake View presented a petition pleading for more trolleys, only to be told, "Why, gentlemen, you are too modest. There are some things you omitted to demand of me or command me to do. One of them is to turn over the control of the North Side lines to your management. Do you expect me to pay any attention to such a ridiculous document?" [26] Even when his own stockholders asked that crowded conditions be alleviated, Yerkes refused with the reply, "It is the people who hang to the straps who pay you your big dividends." [27]

Nor did frequent accidents and Yerkes' resistance to the use of safety devices endear him to the public. He ignored the city's repeated attempts to compel the use of cowcatchers and fenders on street cars. Despite evidence to the contrary, Yerkes argued that stop planks across the wheels were sufficient safeguards. In several instances pedestrians struck down by trolley cars – a not uncommon occurrence – were rushed to the railway office where they were refused medical aid until they had signed liability waivers.[28] Another cause of accidents was the overhead trolley wires which were frequently knocked down during windstorms. In one year, 46 people were killed and 336 were injured by overhead wires that were poorly strung.[29]

Moreover, Yerkes antagonized his former colleagues and businessmen by his failure to heed the normal amenities of business life. An acquaintance commenting on the traction magnate's business morals declared, "I believe he would stop at nothing. He would dare any means to carry a point that seemed to him essential." [30] Widener and Elkins more than once complained that Yerkes "double-crossed his best friends in all his deals." [31] Other businessmen were similarly disturbed. Investors in the Chicago and Jefferson Urban Transit Company, for example, had cause to complain when Yerkes applied

[25] *Engineering News and American Railway Journal*, vol. XL (Oct. 20, 1898), pp. 246–247; Lloyd, *The Chicago Traction Question*, pp. 30–34; *Chicago Daily News*, Feb. 16, 1895; *Tribune*, Nov. 19, 1898.

[26] Andrews, *Battle for Chicago*, pp. 179–180.

[27] *Tribune*, Feb. 21, 1896; Jan. 15, 1895; March 6, 1896; Dedmon, *Fabulous Chicago*, p. 260.

[28] *Engineering News* (Oct. 20, 1898), p. 246; *Tribune*, Sept. 7, 1895.

[29] *Tribune*, Nov. 28, 1895.

[30] *Journal*, Jan. 29, 1898.

[31] LeFevre, "What Availeth It," p. 839.

an assessment of $40 a share on what they thought was nonassessable stock. In another instance, Levi Z. Leiter, the dry goods merchant who had invested in the Union Loop, conducted a public letter writing feud with Yerkes for retaining personally a huge block of stock earmarked for public sale.[32]

Marshall Field, whose shrewd investments are legendary in the history of Chicago, declared for all to hear, "Mr. Yerkes is not a safe man."[33] Field spoke from experience. Along with other leading capitalists of the city, Field had invested heavily in the Chicago North Shore Railway Company, an electric line running from Evanston to Chicago. The promoters of this road anticipated no difficulty in making connection with Yerkes' North Chicago Street Railway, and began construction at the Evanston end. When the work was nearly completed, they were greatly surprised to find that Yerkes refused to allow the line to connect with his own. The North Shore Company "was left with a road beginning at Evanston and ending several blocks from any down town connection, and in that shape was a complete failure."[34] A year later Yerkes permitted an interchange of passengers when the North Shore Company agreed to increase its capital stock and give him half of the new issue. Thereafter, Marshall Field scrupulously avoided any dealings with Yerkes.[35]

Nor was Yerkes particularly concerned with the rights of property owners along the streets where he proposed to extend his tracks. He obtained the legally required number of frontage consents on Wabash Avenue, Clark Street, West Jackson Boulevard, California Avenue, Congress Street, Madison Street, and Van Buren Street by using forged signatures. In one notable instance Yerkes, in order to prevent property owners from obtaining an injunction against the expansion of his trolley system, constructed an entire line in four hours and in the dead of night.[36]

Yerkes cared even less about the comments of Chicago newspapers. "I get many a laugh," he said, "out of their cartoons, their editorials and their news articles directed against me." Anything but diplomatic, Yerkes in short order alienated Joseph Medill, Victor F. Lawson, and other influential editors. He did this by such actions as banning newsboys from his cars, refusing to see reporters,

[32] *Tribune*, Jan. 3, Sept. 13, Nov. 27, 1895; Feb. 26, 1901.

[33] Harold I. Cleveland, "Fifty-Five Years in Business," *System: The Magazine of Business*, vol. XI (Jan.–May, 1907), p. 54.

[34] Illinois Bureau of Labor Statistics, 1896, pp. 40–41.

[35] *Ibid.*, p. 61; *The Economist*, "Street Railway, 1896," p. 38; Cleveland, "Fifty-Five Years in Business," pp. 52–53.

[36] *Tribune*, Dec. 18, 1893; Jan. 15, April 22, Dec. 4, 5, 1895; April 30, May 5, June 28, 1896.

instituting numerous libel suits, and declaring that Chicago's newspapers were giving the city a bad name through cheap and sensational journalism.[37]

Considering Yerkes' actions, his disregard for public opinion, his wealth, his unfavorable press, his association with eastern capitalists, and the fact that he had once been in a penitentiary, there is little wonder that municipal reformers were able to launch a popular crusade against him.[38] The only surprising feature was that it was Yerkes himself who incited this crusade by attempting to obtain long-range extensions for all his existing franchises.

The franchises Yerkes had obtained from cooperative aldermen had been limited as a result of a provision in the city's charter to a maximum duration of 20 years. Although most of his franchises had been issued in the 1890's, the ones under which he was operating his two major lines had been granted in 1883 and were scheduled to expire in 1903. This meant that he would soon have to negotiate with the City Council for renewals. Yerkes, however, did not want to wait until 1903, nor did he want a mere 20-year extension. Consequently, in February, 1897, Yerkes bypassed the City Council and turned to the state legislature for an extension of all his franchises.[39]

On February 17, Senator John Humphrey, from the rural Seventh District of Cook County, introduced three traction bills in the Illinois Senate and had them referred to the Committee on Railroads. This came as a surprise, for no one knew that Humphrey had these bills or that he was interested in street railways. According to rumor, the bills were drawn up by Yerkes' attorney and had the support of other traction financiers.[40] Senate Bill 148 called for the creation of a state commission to control and regulate the operation of all the street railways in Illinois. Senate Bill 149 provided for a 40-year extension of all the existing street-railway franchises, and fixed the rate of fare at 5 cents for the next 20 years and Senate Bill 150 required street railways to pay the state an annual fee of 3 per cent of their gross earnings in lieu of any other taxes.[41]

[37] *Ibid.*, Jan. 13, 1897; Victor F. Lawson to Charles Dennis, Nov. 18, 1897, in the Charles H. Dennis Collection in the Newberry Library, Chicago; Charles M. Fay to Victor Lawson, Jan. 10, 1898, Feb. 22, 1898, and Victor F. Lawson to Charles T. Yerkes, Nov. 8, 1899, in the Victor F. Lawson Papers in the Newberry Library, Chicago; hereinafter cited as Lawson Papers.

[38] For an account of earlier civic crusades in Chicago see Sidney I. Roberts, "Businessmen in Revolt: Chicago 1874–1900" (Ph.D. thesis, Northwestern University, 1960).

[39] Chicago, *An Act to Provide for the Incorporation of Cities and Villages, Adopted by the City of Chicago, April 23, 1875* (Chicago, 1875), p. 17; Chicago, *Proceedings of the City Council, 1883* (Chicago, 1884), pp. 109–111, 113–117.

[40] *Tribune*, Feb. 19, March 11, 1897.

[41] Illinois, *Journal of the Senate of the Fortieth General Assembly* (Springfield, 1897), p. 272. In counties with less than 100,000 inhabitants the fee was to be $500 per mile of track.

On March 8, John Morrison, chairman of the Senate Committee on Railroads, invited the directors of the Chicago street-railway companies to present their views on the pending bills to a joint meeting of the House and Senate Railroad Committees. Yerkes and a coterie of traction men went to Springfield and rented a hotel suite which they maintained as lobby headquarters until the end of the legislative session.[42] Yerkes urged legislators "seeking information or otherwise" to visit these rooms at any time, and many accepted his invitation.[43]

Yerkes was the major witness when the joint committee met on March 10. Throughout the hearing he remained cool and dispassionate and parried questions adroitly. Yerkes declared that it was not the Humphrey bills he wanted so much as fair treatment for his corporations. The streetcar companies, he said, would be satisfied if they could simply obtain a 50-year franchise extension. Then, to the amazement of reformers and aldermen alike, Yerkes justified his appeal for state action by declaring that he was unable to obtain honest treatment from the mercenary and corrupt City Council of Chicago.[44]

On the following day the Senate Railroad Committee reported the Humphrey bills back to the Senate. The Committee recommended that the commission bill be passed, but that bills 149 and 150 be tabled in favor of a substitute, Senate Bill 258. The report was concurred in, and the bills were read a first time and sent to a second reading.[45]

Senate Bill 258 empowered the City Council to grant 50-year franchises; more significantly, it provided for a 50-year extension of all the already existing franchises. The substitute measure also gave the streetcar companies the right of eminent domain and fixed the fare at 5 cents. The only condition imposed on the corporations was the payment of 3 per cent on gross earnings for the first 15 years, 5 per cent for the next 20 years, and 7 per cent for the last 15 years.[46]

Chicago reformers had watched these proceedings in Springfield with a suspicious eye; now they hit back in a series of hard counterattacks. They denounced the bills for contradicting every basic principle of municipal reform. Placing control of the railways in the hands of a state commission was, the critics argued, a violation of

[42] *Tribune*, March 9, 10, 1897.
[43] Samuel W. Norton, *Chicago Traction: A History Legislative and Political* (Chicago, 1907), p. 81.
[44] *Tribune*, March 11, 12, 1897.
[45] Illinois, *Senate Journal*, p. 334; *Tribune*, March 12, 13, 17, 1897.
[46] Illinois, *Senate Journal*, pp. 334, 355; Norton, *Chicago Traction*, pp. 82–84.

the right of local self-government, while the state's extension of local franchises not only infringed upon home rule but also violated the principle of short-term grants.[47] When the bills reached a second reading in the Senate, the Civic Federation of Chicago issued a call "to all clubs, societies, and organizations of Chicago favorable to good government and fair compensation for public franchises" to attend a protest meeting.[48]

Fully 3,000 people responded to the call. William T. Baker, president of the Board of Trade, began the proceedings by denouncing "the conquest" of Chicago "by the franchise grabbers." He was followed by Newton A. Partridge, a civic-minded businessman, whose speech attacking Yerkes was constantly interrupted by applause. Edwin Burritt Smith pronounced against "corporate greed" unrestrained by "any sense of decency, to say nothing of common honesty." Alderman John M. Harlan demanded action. "The time has come," he said, "when we want to stop talking and thinking about what the railroad companies will allow us to do and begin to talk and think about what we will allow them to do. . . . There comes a time when we must and when we will protect ourselves, using whatever means shall be found necessary."[49]

After listening to other speakers, the assemblage established a Citizens' Committee of One Hundred to undertake a campaign against the traction measures. Its activities were to be directed by an executive committee consisting of Josiah L. Lombard, George E. Cole, Simeon P. Shope, Franklin H. Head, Francis B. Peabody, John H. Hamline, Adolph Kraus, Adolph Nathan, and John W. Ela, all of whom were veterans of earlier crusades.[50] The Committee of One Hundred was soon engaged in circulating petitions, writing pamphlets, sending delegations to Springfield, and organizing street-corner meetings in every ward of the city.

Yerkes, in the meantime, was equally active. The traction companies ran full-page newspaper advertisements asking the public not to "follow blindly the intemperate and unfair advice of the ill-informed who blindly oppose anything that may be of benefit to a street railroad and to its patrons simply because it is approved by

[47] Sidney C. Eastman, "Corruption in Illinois," undated MS in the Sidney C. Eastman Collection in the Chicago Historical Society; hereinafter cited as Eastman Collection; *Chicago Daily News*, Feb. 20, 1897; *Tribune*, Feb. 19, 20, March 14, 1897.

[48] *Tribune*, March 18, 1897; *News*, March 20, 1897; Norton, *Chicago Traction*, p. 85.

[49] *Tribune*, March 21, 1897.

[50] *Ibid.*, March 21, 24, 28, 1897; *News*, March 22, 1897; William T. Hutchinson, *Lowden of Illinois: The Life of Frank O. Lowden*, vol. I (Chicago, 1957), p. 87. While the committee consisted mainly of businessmen, the clergy and labor were also represented.

the street railway companies."[51] The same companies, moreover, circulated petitions addressed to the state legislature calling for the passage of the Humphrey bills. Most of these petitions were circulated by young men who were paid $1.00 for every 100 signatures they obtained.[52]

Although the bills had reached a second reading in the Senate, the passage of time brought no respite in the struggle. The uproar in Chicago caused most political observers to comment favorably on the work done by the Committee of One Hundred. They not only predicted defeat of the bills in the Senate, but even questioned whether the measures had enough support to reach a third reading.[53] Overnight, however, something happened. Perhaps, as the *Chicago Tribune* suggested, it was something "tangible," for on April 15, 28 senators lined up behind the bills, cut off debate, sent the bills to a third reading, and made them special order of business for the following day.[54] The enrolling and engrossing clerks worked through the night so that the bills would be ready the following morning. On April 16 they were passed by a vote of 29 to 16 and were sent to the House for concurrence. The only explanation the reformers could offer was that the senators had been bought. They said that a sum of $200,000 had been placed in escrow to be distributed later among the senators, and that $300,000 had been set aside for the members of the House.[55]

The reaction in Chicago was almost incredibly violent. Led by the *Tribune* and the *Daily News*, the newspapers acted as if they were in the midst of a major crisis in human affairs. Numerous social, civic, religious, and labor organizations passed resolutions denouncing the Senate. The Committee of One Hundred issued a call for a mass meeting at Central Music Hall, Sunday, April 19. Despite the fact that it was Easter Sunday, almost every minister urged his congregation to attend, and some 3,500 people participated in one of the wildest demonstrations in the city's history. Every seat was taken; the aisles and the lobby were filled. Once again vehement speeches were delivered, but this time it was not the

[51] *Tribune*, March 21, 1897; *News*, March 21, 1897; *Chicago Inter Ocean*, March 21, 1897.

[52] *Tribune*, March 28, 30, 1897.

[53] The Chicago Committee of One Hundred, *The Street Railway Bills* (Chicago, 1897); Municipal Voters' League, Minute Book, March 10, 13, 30, 1897; Victor F. Lawson to A. D. Philpot, April 23, 1897, Lawson Papers; Union League Club of Chicago, Club Minute Book, Jan. 26, April 13, 1897, in the Union League Club Archives; *Tribune*, April 13, 14, 15, 1897; *Chicago Times-Herald*, April 14, 1897; *Inter Ocean*, April 14, 15, 1897; Illinois, *Senate Journal*, pp. 355–356, 422, 457, 550–559.

[54] *Tribune*, April 16, 1897; Illinois, *Senate Journal*, pp. 565–573.

[55] Illinois, *Senate Journal*, pp. 580–581; *Tribune*, April 16, 17, 20, 1897; *Times-Herald*, April 19, 1897; Norton, *Chicago Traction*, p. 87; Eastman, "Corruption in Illinois," Eastman Collection.

bills that received the brunt of vituperation, but rather the men who passed them.[56]

The meeting at the Central Music Hall initiated a new phase in the anti-Humphrey fight. In an all-out effort to defeat the bills in the House, the reformers increased the tempo and redirected the emphasis of their campaign. Hitherto the opponents of the traction measures had asked the legislature to vote against the bills on grounds that they violated the right of local self-government, extended franchises 50 years, failed to grant adequate compensation to the city, gave the streetcar companies the right of eminent domain, and established a minimum fare which could not be reduced. These arguments had apparently failed to convince the state senators. Consequently, the Committee of One Hundred shifted its attack and informed the legislators that their political future hinged upon their vote on the Humphrey measures.

Nightly ward meetings, under the auspices of the Committee of One Hundred, informed the senators who had voted for the bills that they had committed political suicide and sent warnings to members of the House that their political heads were in jeopardy. Mayor Harrison, in company with a delegation of seven reform aldermen, went to Springfield and did some plain political talking to the Democratic representatives. In the City Council all factions joined hands and unanimously passed a resolution denouncing the Humphrey bills.[57] Senator Humphrey's constituents held a meeting, and when a resolution calling for tar, feathers, and lynching failed to carry, the citizens pledged their sacred honor to drive the Senator into political oblivion.[58] Another city-wide mass meeting was called, and some 5,000 people discovered on arrival that the names of the senators who had voted for the bills were placarded around the hall in huge black type and framed in dollar signs. Overnight, billboards in various legislative districts blossomed forth with black-edged signs naming the senator of that district and bearing the legend, "This man voted for the Humphrey Bills – He Betrayed His Constituents – Remember Him." By Friday, April 23, over 6,000 of these placards were posted on fences, walls, and buildings.[59]

[56] *Inter Ocean*, April 18, 19, 1897; *Tribune*, April 16, 18, 1897; *Times-Herald*, April 19, 1897; Eastman, "Corruption in Illinois," Eastman Collection.

[57] *Tribune*, April 20, 1897; Chicago, *Proceedings of the City Council, 1897–1898* (Chicago, 1898), pp. 49–50; Carter H. Harrison, *Stormy Years: The Autobiography of Carter H. Harrison* (New York, 1935), pp. 114, 126.

[58] *Tribune*, April 20, 22, 1897.

[59] *Ibid.*, April 21, 22, 23, May 6, 10, 11, 1897; *Inter Ocean*, April 21, 1897; Eastman, "Corruption in Illinois," Eastman Collection; an unsigned and undated leaflet, "At

As the campaign gained momentum other cities joined Chicago in deluging Springfield with telegrams and petitions. Under this pressure from pulpit, press, and civic groups, the members of the House began to take sides. On the evening of April 28, a nonpartisan gathering of representatives opposed to the Humphrey bills appointed a steering committee of six Republicans and six Democrats to lead the fight in the House. On the following evening, 88 members of the House attended the caucus and it looked as if there were enough votes to defeat the traction measures.[60] The first test came when the anti-Humphrey forces mustered enough votes to make the bills special order of business for May 12.[61]

Long before ten o'clock on the appointed day, the galleries of the House were filled by spectators, and the doors had to be closed. Mayor Harrison, accompanied by delegations from the City Council and the Committee of One Hundred, was admitted on the floor. Two members of the steering committee stood at the door checking off the names of Representatives as they entered. When the session began all the available space was occupied. Representative Clark Tisdell, leader of the anti-Humphrey forces, got the floor and moved that the bills be considered. The clerk began reading them, and while this was taking place, Tisdell and Mayor Harrison could be seen walking around the House talking to various individuals.[62]

When the clerk reached the last sentence, Representative George Miller of the anti-Humphrey caucus called for a vote on the question of striking out the enacting clause. Cheers greeted Miller's motion, and the fight was on. The situation was tense, with confusion and disorder reigning. Men who attempted to speak were jeered and pelted with paper spitballs. Personal encounters were narrowly avoided, and the services of the House Police were required to restore relative calm. Finally, the question was put to a vote. Tisdell stood on his seat and checked off the members as they responded to the roll call. A band-wagon effect was created as whoops and cheers went up every time the anti-Humphrey forces received an unexpected vote. The franchise extension bill went down by a vote of 121 to 29, and the commission bill went down by a *viva voce* vote.[63]

Yerkes attributed the defeat of the Humphrey bills to socialists,

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a Mass Meeting of the Citizens, Property Owners, and Business Men," in the Graham Taylor Papers in the Newberry Library, Chicago.

[60] *Tribune*, April 29, 30, 1897; *News*, April 29, 1897; Norton, *Chicago Traction*, p. 90.

[61] Illinois, *Journal of the House of Representatives of the Fortieth General Assembly* (Springfield, 1897), p. 770; *Tribune*, May 4, 8, 9, 1897; *Inter Ocean*, May 8, 1897.

[62] *Tribune*, May 13, 1897; *Inter Ocean*, May 13, 1897.

[63] *Inter Ocean*, May 13, 1897; Illinois, *House Journal*, pp. 806–807.

anarchists, and, above all, newspapers. "The conditions in this city which have been developed through the Humphrey bills," wrote Yerkes, "show really a remarkable state of society. It shows that the people are ready to listen to the agitator, the newspaper liar, and to act on the theories which they suggest." "Intimidation," he went on, "was the order of the day, and that in the most brazen manner; in fact, a newspaper would have no hesitation whatever in warning a member that if he did not vote as they wished him to they would see to it that he was never allowed to occupy another public position. What they meant by that was that he would be falsified and maligned, that his character would be completely ruined and he and his family would, as far as the newspaper editor was concerned, be outcasts among their fellows." [64]

The fight, however, was not yet over. On May 18, 1897, less than a week after his great defeat in the House, Yerkes appeared again in Springfield to announce that he would present new measures containing fewer demands.[65]

Introduced by Representative Charles Allen from the small town of Hoopeston in Vermilion County, the new bills were in many ways like the defeated ones. The principal difference was that the Allen bills merely authorized the City Council to extend all existing franchises for 50 years. In addition, the Allen bills permitted noncompeting companies to consolidate and fixed the fare at 5 cents for the first 20 years.[66]

In spite of their obvious moderation and careful regard for the principle of home rule, the Allen bills set off a new tempest in Chicago. The temper of public opinion was such that no measure proposed by Yerkes could have received calm evaluation. To the reformers the new bills were just as "vicious" as the Humphrey bills had been and appeared to be part of Yerkes' scheme to consolidate all the lines in the city, eliminate competition, and bribe the City Council.[67] Consequently, the Committee of One Hundred revived and issued pamphlets and leaflets denouncing the "Eternal Monopoly" bills and asserting that they were the Humphrey bills in a different guise. Delegations of citizens went to Springfield, and those who could not go sent petitions and telegrams. Central Music Hall once again rang out with speeches and resolutions. Representatives Tisdell and Miller reorganized their steering committee.

[64] *Tribune*, May 13, 1897.
[65] *Ibid.*, May 19, 1897.
[66] Illinois, *House Journal*, pp. 951–952; Norton, *Chicago Traction*, p. 92.
[67] Lincoln Steffens, *The Struggle for Self-Government* (New York, 1906), p. 61; Eastman, "Corruption in Illinois," Eastman Collection; *Inter Ocean*, May 21, 1897.

They soon claimed that there were at least 86 members of the House who were opposed to the Allen bills.[68]

Yerkes and his supporters were equally active. The traction magnate converted a chair under the rotunda of the Capitol into a command post and issued orders to his political lieutenants, William Lorimer, "Doc" Jamieson, and Roger Sullivan. How much money Yerkes employed was never exactly known, though it was generally assumed that it was a great deal. According to William Kent, a new member of the Legislature was offered $20,000 for his vote, while more experienced solons demanded, and received, more.[69] Gilson Gardner, a reporter of the Chicago *Evening Journal*, was inadvertently offered $2,500 for his nonexistent vote when he "happened to be sitting in the seat of a member of the House before the session was called to order, and was mistaken for that member by a nearsighted old state senator who was one of the go-betweens." "He sat down beside me," said Gardner, "and opened with the explicit statement that he would pay twenty-five hundred for my vote on the traction bill. He quickly discovered his mistake and there was much scurrying in the ranks of grafters." [70]

By now time was running out, for the legislature had earlier adopted a resolution to adjourn on June 4. This meant that Yerkes had less than two weeks to get his bills out of committee and through both houses of the legislature. The reformers were optimistic, for there were over 200 bills on the House calendar ahead of the street railway measures. The Allen bills could be advanced only if the House suspended its rules by a two-thirds vote and made the bills the special order of business. It did not appear that Yerkes had enough supporters to push the traction bills ahead of other business.[71]

On the evening of May 25, however, the situation changed entirely. The Speaker of the House, Edward C. Curtis of Kankakee, who had gone on record against the Allen bills and who had promised they would not be advanced out of order, suddenly had a toothache and announced that Representative Charles E. Selby from Springfield, a Yerkes partisan, would take his place as Speaker *pro tem.* on the following day. Representative Clark Tisdell immediately alerted the Committee of One Hundred. He telegraphed

[68] *Tribune*, May 19, 20, 21, 23, 24, 25, 26, 31, 1897; 20 telegrams from Victor F. Lawson to members of the state legislature, May 27, 1897, Lawson Papers; Sidney C. Eastman to Adolph Nathan, Frank J. Loesch to Eastman, May 26, 1897, and Herman H. Kohlsaat to Eastman, May 27, 1897, Eastman Collection; Lewis and Smith, *Chicago*, p. 249.

[69] E. Kent, *William Kent: Independent*, p. 155.

[70] *Ibid.*, pp. 155–156.

[71] *Tribune*, May 20, 24, 26, 1897.

Mayor Harrison and Aldermen Harlan and Walker, "Come to Springfield at once. There is danger." [72]

An alarmed delegation arrived from Chicago in time to see Selby presiding over the House. Representative Allen, as chairman of the Judiciary Committee, who had been delaying reporting his bills back from committee, chose that day to act. Despite heated protests and shouted points of order, Selby ruled that the Allen bills could be advanced and made special order of business by a majority instead of a two-thirds vote. The vote was taken and by the close decision of 67 to 66, the Allen bills moved to a second reading and were made special order of business.[73]

The following day witnessed a stormy session marked by confusion, gavel pounding, points of order, and cries of "fraud," and "conspiracy." But the Allen measures advanced to a third reading by a vote of 82 to 58. Finally, on Friday, May 28, after a bitter three-hour session, the Allen bills passed the House by a vote of 85 to 60.[74] As was expected, the Senate in a comparatively frictionless manner added a few minor amendments and sent the bills back to the House for concurrence. After further debate in the House the traction bills were passed by a vote of 83 to 70. On June 9, the Governor signed the Allen measures into law.[75]

It is now evident that the Allen bills had been logrolled through the legislature. The streetcar people had made deals with the friends of other measures. One representative from Boone County had a butterine bill which was at a standstill; a swap was arranged, and the butterine bill became a law. In a similar fashion, rural supporters of a bill regulating bumboats on the Illinois River got what they wanted. Dog bills, sheep bills, stray-cow bills, and hedge-fence bills all contributed to the passage of the Allen measures. From the point of view of the down-state members of the House it was all fair enough, for the extension of franchises under the Allen law now lay in the hands of the Chicago City Council.[76]

Throughout the entire fight, Yerkes sat in the hall of the Capitol

[72] *Ibid.*, May 26, 1897; telegram from Sidney C. Eastman to H. H. Kohlsaat, May 27, 1897, Eastman Collection.

[73] Illinois, *House Journal*, pp. 951–952; *Tribune*, May 27, 1897; *Inter Ocean*, May 27, 28, 1897.

[74] Illinois, *House Journal*, pp. 963–966, 970, 978.

[75] *Ibid.*, pp. 1145–1148; Illinois, *Senate Journal*, pp. 899, 902, 925, 938, 943–952, 1043, 1096–1097; *Tribune*, June 3, 4, 5, 1897; *Inter Ocean*, June 5, 1897.

[76] The initial press reaction was to charge bribery, but, in time, the logrolling explanation was accepted. Representative Frank L. Hall, for example, in 1898 explained his vote by saying: "By voting for the Allen bill which does not affect a single individual in Pike County, I secured a vote for the butterine bill, which is estimated to be worth to the farmers of my district who make butter $75,000 a year." *Tribune*, March 28, 1898.

under a painting of George Rogers Clark and a group of Indians. Here he remained hour after hour dispassionately receiving news and issuing orders. Nothing seemed to bother him. In the closing minutes of the battle he was paring, quartering, and eating an apple. When informed of his victory he showed little emotion: He merely wiped his penknife blade, snapped it shut, and left the Capitol.[77] Perhaps he realized that he had won only a battle and not the war. Before he could benefit from the Allen law the City Council would have to act. He was back where he had started – in a hostile Chicago.

Contrary to expectations, Yerkes did not immediately attempt to obtain 50-year franchises, but instead left Chicago on an extended tour of Europe. It was not until November, 1898, 18 months after the enactment of the Allen law, that Yerkes made his bid. He purchased a newspaper, the Chicago *Inter Ocean*, and initiated a propaganda campaign for franchise extensions.[78] Every issue of his paper contained one or more items dealing with the traction question. The *Inter Ocean* pointed out the good features of the Allen law and attempted to prove to its readers that the city would benefit from long-term franchises. It carried a series of scholarly appearing articles comparing Chicago's traction facilities favorably with those of other cities. The *Inter Ocean* even deemed high school and college debates on public versus private ownership as newsworthy items when the private ownership side of the proposition was judged victorious.[79]

Yerkes did not limit his use of the *Inter Ocean* to merely defensive measures. He used his paper to attack all and sundry who stood in opposition to his plan. To this end he employed George W. Hinman, formerly of the *New York Sun*, as chief of the *Inter Ocean's* editorial staff.[80] It probably gave Yerkes a great deal of pleasure to read Hinman's unrestrained tirades against Victor F. Lawson, the "well-known professional traction baiter." In due course the *Inter Ocean* denounced Lawson as a "friend of socialists," the recipient of "hush money," "a moral bankrupt," and a "debaucher of youth." The last allegation was provoked by the fact that newsboys were being taught boxing in Lawson's gymnasium. "Lawson's School for Crime," Hinman called it, "for careers which will certainly

[77] *Tribune*, June 6, 1897.
[78] *Ibid.*, Nov. 19, 24, 1897; *Times-Herald*, Nov. 18, 1897; *News*, Nov. 18, 1897.
[79] *Inter Ocean*, Nov. 24, 1897. See also *Ibid.*, Sept. 14, Nov. 8, 13, 16, Dec. 4, 16, 17, 20, 1898; Feb. 4, 1899.
[80] *Ibid.*, Dec. 18, 1898; Charles H. Dennis, *Victor Lawson: His Time and His Work* (Chicago, 1935), p. 285.

guide many of them into paths that lead to the jail, reform school, the penitentiary, and the gallows." [81]

Lawson's initial reaction to the *Inter Ocean's* abuse was to declare, "I do not intend to inflict on the readers of the *Record* or the *Daily News* my personal grievances against Mr. Yerkes." "Our whole concern about Mr. Yerkes," he went on to say, "is that in his representation of Street Railway properties he shall be made to deal decently, honestly and fairly with the public insofar as the public has rights connected with the management of these properties. This is the sole basis of our criticism of Yerkes and his methods, and I do not mean to make the mistake of weakening the force of our criticism in this direction by placing my papers in a position where he and his associates can minimize the force of our criticism by saying that we have a personal grievance against Yerkes himself." [82] Later, and after many additional attacks, Lawson was still able to say, "I am entirely indifferent to anything Mr. Yerkes or his newspaper can say about me. The public generally knows that Mr. Yerkes has been in jail and that I have not been. Why say more?" [83] Instead of employing personal rejoinders Lawson took the more practical approach of having his newspapers cooperate more fully with the civic reformers opposed to Yerkes.[84]

Ranging far and wide, the *Inter Ocean* denounced Mayor Harrison and his administration for corruption in general, for issuing fraudulent contracts for sewer construction, and for sharing in the proceeds of illegal gambling. For Joseph Medill and the *Chicago Daily Tribune*, the *Inter Ocean* had many accusations, and it saved others for Herman H. Kohlsaat and his *Times-Herald*. All reformers, it declared, were "busybodies" and "hypocrites." [85]

The *Inter Ocean* intensified its campaign by running an editorial which it repeated frequently. In part it declared, "The officers of the street-car companies have done everything in their power to bring about a proper understanding between the city authorities and their companies, but owing to the action taken by some of the newspapers in Chicago the efforts up to the present time have been of no avail. The fact is that there is a combination of newspapers

[81] *Inter Ocean*, Nov. 17, 1898; Feb. 26, May 20, 24, 1899. Hinman and Lawson were already enemies as a result of an earlier feud over the Associated Press of which Lawson was a founder.

[82] Victor F. Lawson to Charles H. Dennis, Nov. 18, 1897, in the Charles H. Dennis Collection in the Newberry Library, Chicago; hereinafter cited as Dennis Collection.

[83] Victor F. Lawson to Charles H. Dennis, Jan. 12, 1898, Dennis Collection.

[84] Charles M. Faye to Victor F. Lawson, Feb. 10, March 29, 1898, Lawson Papers; cablegram from Victor F. Lawson to Charles H. Dennis, Feb. 24, 26, 1898, Dennis Collection.

[85] *Inter Ocean*, Sept. 20, Oct. 13, 24, Nov. 5, 6, 7, 29, Dec. 1, 1898; Jan. 27, May 26, 29, 1899.

in Chicago which levy blackmail on any corporation which they can force to pay tribute." After naming the *Tribune*, the *Times-Herald*, the *Evening Post*, the *Record*, and the *Daily News*, the editorial continued, "The proprietors of those papers have agents who make demands on the corporations. Demands have been made on the traction companies, which have been refused, and which will continue to be refused." [86] Interviewed by a reporter from the *Inter Ocean*, Yerkes said that the charge was true and declared, "I would sooner pay a thousand dollars to fight these people than pay them one dollar to stop their mendacious attacks." [87]

In another editorial which was printed every day and sometimes twice in the same issue, the *Inter Ocean* included the city administration in the alleged conspiracy against Yerkes. It charged that Mayor Harrison had signed an agreement with the "trust newspapers" to join them in persecuting the street-railway companies, "thereby assisting the trust to levy blackmail on the street-railways, or to punish them in case they do not submit." "The proprietors of the trust newspapers," the editorial went on, "agree not to expose any of the evil doing of the city administration, to the end that the mayor may have the assistance of the politicians . . . in keeping him before the people as a righteous man and a good mayor, help him remain in office, and to aid him to become Governor." [88]

Day by day the editorial barrage increased. By December there was no mistaking that Yerkes was preparing the ground for the introduction of an extension ordinance in the Council. While everyone knew that eventually an extension ordinance would be introduced, it none the less came as a surprise.[89]

The Council meeting of December 5, 1898, started in the usual humdrum fashion with a calling of the wards for the presentation of new business. When the Twenty-Third Ward was reached, the bald and obese William H. Lyman rose, drew a sheaf of papers from his inside pocket, and hesitatingly announced that he had an extension ordinance which he had been asked to present, and moved that it be sent to a joint committee composed of the three committees on Streets and Alleys, North, South, and West. These committees were controlled by Yerkes' aldermanic friends. Mayor Harrison took a firmer grip on his gavel and, along with the others present, listened intently as the clerk first read a letter from Yerkes

[86] *Ibid.*, Nov. 4, 16, 19, 26, 1898.
[87] *Ibid.*, Nov. 16, 1898.
[88] *Ibid.*, Nov. 25, 1898. The editorial was repeated with slight variation in the wording throughout November and every day in December until Dec. 19, 1898.
[89] *Ibid.*, Dec. 6, 1898; *News*, Dec. 3, 5, 1898; *Tribune*, Dec. 6, 8, 9, 1898; *Chicago Record*, Dec. 5, 6, 7, 1898.

asking for fair treatment and then the ordinance itself. It called for a 50-year extension of all the then existing street-railway franchises; a 5-cent fare for the first 20 years; and a graduated scale of compensation to the city ranging from one half of 1 per cent to 3 per cent of the traction companies' gross incomes.[90]

When the clerk finished reading, some half dozen aldermen clamored for recognition, and the mayor called on William Mavor, reform alderman from the Thirty-Second Ward. What Mavor had to say was barely audible over the repeated shouts of "point of order" raised by Alderman Powers and his followers. Mavor remarked that inasmuch as the ordinance under question was one of the most important ever introduced and one which would affect generations to come, it should be sent to a special committee to be appointed by the mayor. On a roll-call vote of 30 to 33, Alderman Mavor's motion was defeated and the ordinance was sent to the joint committee on Streets and Alleys.[91]

The popular sentiment which had so long been kept in readiness was mobilized with amazing rapidity. Immediately upon the adjournment of the Council meeting, Mayor Harrison sounded the rallying cry by declaring, "This is no time for nice work. If some man proposed to come into my back yard and take my linen off the clothesline I would know how to prevent him. If somebody proposed to break into my house and rob me I would know what to do with him. The people of Chicago can prevent the robbery of the city by the street-railways if they go about it in the right way."[92] To some it seemed that the mayor was suggesting that "the right way" was to use violence.

Chicago came alive with excitement; events transpired at a pace requiring a kaleidoscopic view of the city: the mayor issued a call for 150,000 citizens to congregate in and around City Hall at the next Council meeting; a delegation visited Alderman Kenna and threatened to lynch him if he voted the wrong way; Bathhouse John admitted, "Things are getting pretty warm"; school children stoned an effigy of a man wearing a sign "I am a Boodler"; spontaneous meetings took place; men on the streets wore tiny nooses in the buttonholes of their coats; aldermen received letters threatening to kidnap their children; rumors circulated that the governor would call out the state militia to prevent bloodshed; delegations

[90] *Inter Ocean*, Dec. 6, 1898; Chicago, *Council Proceedings, 1898–1899*, pp. 1057-1058.
[91] Chicago, *Council Proceedings, 1898–1899*, pp. 1059–1061; *Record*, Dec. 6, 1898; *Inter Ocean*, Dec. 6, 1898.
[92] *News*, Dec. 6, 1898.

visited the wives of aldermen who had influence with their husbands; lapel badges were distributed picturing a brown fedora and bearing the legend, "Carter Will Never Eat His Hat"; the New York *World* informed its readers that Chicago aldermen may soon be hanging from lamp posts; ward meetings were held nightly; labor unions issued statements opposing the Lyman ordinance; city bicyclists denounced Yerkes; Captain Milton J. Foreman, war hero, announced, "I look upon this struggle as much a fight for my country as I did the American-Spanish [*sic*] War, when I enlisted in the First Illinois Cavalry"; an alderman returned home to find that his wife had locked him out and refused him admittance until he stated whether he was "for Chicago or for Yerkes." [93]

The newspapers of Chicago were completely given over to the traction war with a coverage greater than that accorded the "Great Fire" or the Haymarket Riot. News and editorial columns became indistinguishable; lambasting cartoons displaced advertisements; headlines grew taller; and the *Tribune* introduced a new front-page feature entitled, "Bulletins of the Franchise War News." The *Inter Ocean*, though outnumbered by five, returned blow for blow. Issue after issue of the *Inter Ocean* carried the following bold-faced announcement: [94]

> The alderman who votes against fair ordinances for the street-car corporations, in order to help the trust newspapers extort money from the traction companies, thereby becomes accessory to blackmail and extortion. His name will be placed in the pillory among those who prostitute their convictions to the interests of blackmailers and corruptionists. The brand of dishonesty and cowardice will be upon him for life.

The *Times-Herald*, *News*, *Record*, *Post*, and *Tribune* reported that aldermen were being offered bribes varying from $5,000 to $100,000. Those aldermen who could not be reached by money were reportedly offered other inducements, such as contracts to build power houses or to sell uniform overcoats to street-railway employees.[95] The *Inter Ocean* countered by reporting that Mayor Harrison was intimidating the aldermen connected with saloons, gambling establishments, and houses of prostitution with threats of raids and strict enforcement of city ordinances.[96] Other aldermen, according to Yerkes' paper, were being intimidated by threats of violence. The *Inter Ocean* reported having in its possession a letter

[93] *Ibid.*, Dec. 9, 1898; *Tribune*, Dec. 7, 8, 9, 1898; *Record*, Dec. 7, 9, 1898; *Inter Ocean*, Dec. 8, 1898.
[94] *Inter Ocean*, Dec. 8, 9, 12, 13, 1898.
[95] *News*, Dec. 7, 1898; *Tribune*, Dec. 9, 1898.
[96] *Inter Ocean*, Dec. 8, 1898.

anonymously sent to an alderman menacing him with a hangman's rope. The same issue contained editorials entitled "The Anarchists of '98," "Blackmail," and "Sedition." The last-named editorial began by stating: "The criminal and vicious classes of Chicago, the anarchists, revolutionists, and incendiaries, are invited by the trust newspapers to assist in the destruction and confiscation of the vested rights of corporations and the private rights of law-abiding citizens. The appeal is made in no uncertain language. It is made boldly and defiantly. The mob is invited to assemble. The incendiary is prompted to bring his torch." [97]

The *Inter Ocean* repeatedly declared that the mayor, in conspiracy with the city press, wanted blood to flow through the streets of Chicago. Cartoons were used to augment editorials. By far the best of these was captioned "His Honor the Mayor" and depicted Harrison as a deranged, hair-disheveled, wild-eyed anarchist with a flaming torch, a rope, a can of gasoline, and a smoldering bomb, kicking the Lyman ordinance into a mist labeled "anarchy." [98]

Seething with an excitement largely attributable to the newspapers, an unprecedented number of people attended mass protest meetings and gave voice to their feelings. In an effort to supply these gatherings with speakers, Chicago's civic organizations cooperated in establishing the Citizens Independent Anti-Boodle League. Although primarily a speakers' bureau, the Anti-Boodle League also undertook to distribute petitions and pamphlets. The League worked so effectively that in almost every ward there were nightly meetings. Among the more active speakers were Mayor Harrison, George E. Cole, Franklin H. Head, John H. Hamline, ex-Governor John P. Altgeld, John M. Harlan, William Kent, and the Reverend Jenkin Lloyd Jones.[99]

A less boisterous phase of the traction war was taking place on the political front. After evaluating the strength of the anti-Yerkes sentiment, Mayor Harrison took a firm stand around which his supporters could rally. He flatly declared that he was opposed to the passage of any and all franchises – regardless of compensation or duration – for so long as the Allen law remained on the books.[100] This stand, easily translated into the battle cry "no compromise with boodlers," was not only endorsed by the public in mass meetings, but also by the Central Committees of the Cook County Republi-

[97] *Ibid.*, Dec. 9, 1898.
[98] *Ibid.*, Dec. 10, 1898.
[99] *News*, Dec. 9, 12, 1898; *Tribune*, Dec. 11, 12, 1898; E. Kent, *William Kent: Independent*, pp. 160–161; C. Harrison, *Stormy Years: Autobiography*, pp. 170, 173.
[100] *Tribune*, Dec. 8, 1898.

can and Democratic parties. Both these organizations urged the aldermen not to pass the Lyman ordinance.[101]

Harrison held conferences, planned strategy, and cajoled wavering aldermen. Two votes, or perhaps even one, could decide the issue. The mayor summoned Kenna and Coughlin, the two aldermen from the First Ward, and asked them where they stood. Inasmuch as neither Hinky Dink nor Bathhouse John had any love for Alderman Powers they were quite willing to listen to the mayor's arguments. Finally, Bathhouse rose and said, "Mr. Maar, we're with you. An' we'll do what we can to swing some of th' other boys over." [102]

On the evening of December 12, 1898, a large throng gathered in and around the City Hall hours before the Council was scheduled to convene. The galleries were filled with men sitting double on seats; standing room on the floor and in the corridors was at a premium. Outside, the crowd hummed with menacing noises. A delegation from Alderman Billy Mangler's ward brandishing clubs and ropes shouted for their alderman to come out. A drum and bugle corps paraded through the jammed corridors playing the "Battle Hymn of the Republic" and martial music. The aldermen had to shout in order to be heard over the din. When a photographer set off his flash powder several aldermen, to the immense delight of the spectators, dove beneath their desks. A dozen or so nooses dangled over the gallery railing in plain view.[103]

When a degree of order was established, the Council began the evening's business. After some minor flare-ups, Alderman Augustus W. Maltby moved that the rules be suspended and a resolution be adopted declaring that no extension ordinances be passed until the Allen law was repealed. This was a crucial move, for if two thirds voted for the motion Yerkes would be beaten in Chicago. Thirty-eight aldermen voted for Maltby's resolution, and twenty-five voted against it. Although it failed to secure the requisite number, it did receive the support of a majority of the aldermen. Before the cheers from the galleries died down the strength of the opposing forces was put to another test. For some unknown reason one of Yerkes' lieutenants, Alderman Ed Cullerton, moved that the Lyman ordinance be taken from the joint committee on Streets and Alleys and be sent to the Committee on Railways. The

[101] *Record*, Dec. 8, 1898; *Inter Ocean*, Dec. 8, 1898.

[102] *Tribune*, Dec. 7, 8, 10, 1898; Wendt and Kogan, *Lords of the Levee*, p. 192; C. Harrison, *Stormy Years: Autobiography*, pp. 156–159.

[103] *Inter Ocean*, Dec. 13, 1898; *Tribune*, Dec. 12, 13, 1898; *Record*, Dec. 13, 1898; Wendt and Kogan, *Lords of the Levee*, pp. 193–194.

motion carried by a vote of 40 to 23, and the Council adjourned.[104]

Both sides claimed an important victory, but obviously nothing had been decided. The final decision was simply delayed until a future Council meeting. Almost as if history was repeating itself, Chicago went into another tension-filled week of mass meetings, resolutions, rumors, pronouncements, and blaring headlines. The one difference was that the Lyman ordinance was being changed in the Council Committee on Railways. Yerkes was now prepared to ask for a 35-year extension with compensation up to 5 per cent. Perhaps the traction interests were hoping to win over some of the opposition and mollify the public by compromising.[105]

When the aldermen gathered for their meeting of December 19, the Council Chamber and its environs once again rang out with the noises of an aroused citizenry. The spectators expected the compromise ordinance to be introduced and wondered what defensive move the reform aldermen would make. No one suspected that the mayor and his supporters had arranged a surprise maneuver. Harrison had been secretly informed that Alderman Spencer S. Kimball of the Twenty-Seventh Ward had the substitute measure and would introduce it on the call of the wards. Should this happen, the only way of bypassing it would be through a suspension of the rules, which required a two-thirds vote.

Knowing the impossibility of securing a two-thirds vote, the mayor had devised a scheme to prevent the roll call from reaching Alderman Kimball. When the call of the wards reached Alderman William Mavor, that staunch Yerkes opponent moved that the Lyman ordinance be removed from committee. Alderman Powers did not understand what was happening, but since he no longer cared about the Lyman measure he offered no opposition and the motion carried. With the ordinance now before the Council, Mavor moved that the Lyman ordinance and all subsequent ordinances dealing with the traction lines be sent to the Committee on City Hall. Suddenly the whole point of these maneuvers hit Powers. Not only was he being defeated, but he was being made the fool, for back in April when he controlled the Council committee assignments he had isolated the reformers in an inconsequential committee that had not met in ten years – the Committee on City Hall.[106]

Powers and his aids jumped to their feet, protested vehemently, and pointed to the bewildered Kimball who held a copy of the new

[104] Chicago, *Council Proceedings, 1898–1899*, pp. 1171–1172; *News*, Dec. 13, 1898.
[105] *News*, Dec. 17, 1898; *Inter Ocean*, Dec. 18, 1898.
[106] Chicago, *Council Proceedings, 1898–1899*, pp. 49–51; *Tribune*, April 19, 1898.

ordinance in his hand. Over the din Powers could be heard shouting, "It's outrageous. It's crooked." After restoring order, Mayor Harrison declared that there was a motion before the Council and ordered the clerk to call the roll. As each alderman voted, the results shifted first to one side then to the other. All was silent as the mayor tallied the results and announced 32 in favor of Mavor's motion and 31 against. First a buzz and then a tremendous roar came from the galleries. Powers, dazed and downcast, was reported to have muttered, "It's all over now." [107]

The extension ordinances were dead. Yerkes was completely blocked, for the City Hall Committee would not report on the traction ordinances. While the extension franchises were buried in the City Hall Committee, the state legislature convened in Springfield. The sustained pressure of public opinion was such that the first bills introduced in both houses were measures to repeal the Allen law. On February 22, 1899, the House by a vote of 145 to 1 repealed the Allen law. Only Representative Allen voted against repeal. The Senate, on March 2, voted unanimously for repeal and the Governor signed the bill on March 7, 1899.[108]

When the Allen law was removed from the statute books, Charles T. Yerkes, financier and traction king, was defeated. Had he known as much about human nature as he did about high finance, he never would have initiated the Humphrey-Allen-Lyman effort. Much to the joy of many Chicagoans, Yerkes decided to leave the Chicago traction field altogether.

One may wonder, however, whether Yerkes retired in defeat, for according to all accounts he was no ordinary buccaneer. In July, 1899, he sold most of his railway properties for $10,000,000 to his old friends Widener and Elkins, who established the Chicago Union Traction Company.[109] Widener and Elkins were soon bitterly complaining about all the watered stock they had purchased. But it was at this time that Yerkes, enroute to London to build that city's subway system, was heard to comment, "The secret of success in my business is to buy old junk, fix it up a little, and unload it upon other fellows." [110]

[107] Chicago, *Council Proceedings, 1898–1899*, pp. 1197–1198; Wendt and Kogan, *Lords of the Levee*, pp. 198–199; *Inter Ocean*, Dec. 20, 1898; *News*, Dec. 20, 1898.

[108] Illinois, *Journal of the House of Representatives of the Forty-First General Assembly* (Springfield, 1899), pp. 187, 209–211, 220; Illinois, *Journal of the Senate of the Forty-First General Assembly* (Springfield, 1899), pp. 205–206, 221, 235; *Inter Ocean*, March 8, 1899. Eleven different repeal bills were introduced in the legislature.

[109] *Tribune*, May 11, 17, June 3, July 2, 1899.

[110] Hendrick, *Age of Big Business*, p. 126.

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Market Entry and Economic Adaptation: Spiegel's First Decade in Mail Order

The Spiegel venture into mail-order installment credit marketing is examined here in detail to illustrate application of the tools of economic analysis to a specific historical situation. Whether through chance or intuition, the innovator in this example, though lacking virtually all the pertinent data, made precisely the adaptation that hindsight analysis discloses to have been most likely to succeed.

Serious American business historiography has benefited, usually implicitly, from the contributions of economic analysis. Too frequently, however, individual firm histories reflect little concern with the fundamental nature of the economic environment within which the companies operated. Even less regard is given to the significance of modern analysts whose work is so vital in explaining business behavior. This is lamentable for two reasons. First, such studies lack the insight which a sound grounding in economic analysis provides the writer in propounding—and answering—meaningful questions. Second, the results are rarely useful as empirical evidence for economists struggling, for example, with problems in industrial organization. Greater and more discriminating use of the tools of economic analysis and the results of empirical research should produce significantly better books and more socially useful information.

Of particular interest to the analytical business historian is the work done on the structure and organization of markets. While no consensus has been reached among students of this phenomena, many of the postulates advanced for consideration have indicated the direction in which a viable general theory of market behavior might lie. Certain of these, to be developed later, have been of critical importance in the writer's current research. Unfortunately, it has been in the area of industrial markets that the overwhelming body of such work has been concerned. Practically no attention has

been paid to the distributive markets for consumer goods.[1] The concentration of attention upon industrial markets is understandable for many reasons, but the problems which have fascinated economists in such markets exist in the distributive trades as well. Some, in fact, may well prove to have an even stronger fascination because of the complexities involved in highly heterogeneous market structures. This article will make a modest attempt to redress this imbalance by exploring the determinants and conditions for survival of a retail organization entering a new segment of the market in which it had operated successfully. Much of the analytical orientation of the diagnosis offered here was borrowed from work done by A. A. Alchian and Richard B. Heflebower.[2] Since these contributions have been used extensively in the development of this article, they merit closer examination.

Postulates of the Analysis

The situational framework of this article concerns the decision of the management of Spiegel House Furnishings Company of Chicago to enter the field of mail-order distribution in 1905. "Profit maximization" was not the principal motive for such action, if foresight was uncertain and information imperfect. Alchian, rejecting profit maximization under these conditions as being meaningless, recommends instead an approach which "embodies the principles of biological evolution and natural selection by interpreting the economic system as an adoptive mechanism which chooses among exploratory actions generated by the adaptive pursuit of 'success' or 'profits.'" It is his contention that under conditions of uncertainty each alternative course of action open to a firm is identified with a distribution of outcome rather than with a unique solution. These distributions overlap in many cases, yielding only one unpredictable result from any action taken. Whatever the action might be, and regardless of whether it was because of unusual foresight or accident, the economic environment reacts by conferring or withholding profits. Profits reflect the relative superiority of the "adapted" firm over actual competitors, not some idealized "perfect" competitor. Further, "the greater the uncertainties of the world, the greater is the possibility that profits would go to the venturesome and lucky

[1] A notable exception has been the A & P Company. See, for example, Joel B. Dirlam and Alfred E. Kahn, "Antitrust Law and the Big Buyer: Another Look at the A & P Case," *Journal of Political Economy*, vol. 60 (April, 1952), pp. 118–132.

[2] Armen A. Alchian, "Uncertainty, Evolution, and Economic Theory," *Journal of Political Economy*, vol. 58 (June, 1950), pp. 211–221. R. B. Heflebower, "Toward a Theory of Industrial Markets and Prices," *American Economic Review* (Papers and Proceedings), vol. 44 (May, 1954), pp. 121–139.

rather than to logical, careful, fact-gathering individuals." Finally, although sheer chance plays a vital role in the choice of a specific action and although those firms "who have their fixed internal conditions closer to the new, but unknown, optimum position" in the new environmental situation will more probably be selected for survival, growth will depend largely upon the firm's ability to adapt to altered situations.

Heflebower contends that it is "in connection with the adaptation of the firm to its environment that uniquely farseeing or unwise business decisions have their major influence." Once taken, the decisions upon which an action was based set for some indeterminate period the conditions for shorter run operating decisions. Heflebower, however, excludes a universe of possible choices between which the firm selects. He argues instead that "at a given time each firm's freedom of action is limited by its history. The degree to which this is true depends on the adaptability of equipment, of personnel, of internal organization, and of relations with suppliers and customers." The basic characteristics of the firm exemplify longer term objectives. Temporary deviation from such objectives is not generally wise; this tends to restrain "quick, sizable changes in the character of the business."

The timing of actions and the variation in the "internal conditions" of firms provide a basis for differentiation among sellers in given markets. Market structure, then, can be viewed at any moment in time, in Heflebower's analysis, as "an evolutionary process whereby firms come to acquire a workable relationship with one another. They are assisted in this process by the fact that most markets are made up of niches." In the process of establishing a niche, which implies a degree of isolation from complete and direct competition, the firm acquires a "market position." Heflebower defines market position as a long-term attribute consisting of a set of qualities among which are products, customers, distributional apparatus, promotional forms, and volume share. A strong market position is acquired by capable adaptation by the firm; it is developed slowly but can deteriorate rapidly. In achieving and maintaining a market position, managerial behavior is strongly influenced and useful guides are provided for measuring both firm capabilities and insufficiencies with respect to various alternatives posed by economic forces.

The decision to enter the mail-order segment of house furnishings retailing by Spiegel House Furnishings Company and the adaptive behavior of the firm's management as it sought to survive

and acquire a strong market position will be analyzed within the framework of the foregoing concepts. The analysis will attempt to isolate the requisites for successful environmental adoption and to diagnose the essential strategy employed.

The Going Firm and Managerial Choice

Twelve years following its entry into installment-credit furniture retailing, Spiegel House Furnishings Company was a very successful firm. Founded in 1893 with a capital of $31,000, the company had combined dramatic personal selling, aggressive credit merchandising, and a shrewd evaluation of its market into an enviable market position. By 1905 total company assets were $660,000; net worth almost $440,000; and aggregate net profits were $412,000.[3] Spiegel's customers were typically lower-middle and working-class people; its two neighborhood branches were located in industrial south-side districts with largely foreign-born populations. The main store serviced patrons drawn to the city's central, downtown shopping area.

Joseph Spiegel, the founder, was titular head of the firm, sharing executive responsibilities with two older sons. A third son, Arthur, twenty years old, had but recently been accepted into the governing hierarchy on the strength of a personal triumph of judgment. With this success as a springboard, Arthur Spiegel wished to propel the company into a broader geographical market.

The actions which precipitated this proposal were accidental. For years the company had made extensive use of newspaper advertising in Chicago, and mail editions had carried the promotional messages to towns outside the city. Many out-of-town readers had been stimulated to come to the city to buy from Spiegel, while others ordered merchandise by mail. The management consistently refused such mail requests on the grounds that they were not set up to handle freight shipments and because their credit men operated on the premise that a visual inspection of the applicant was a necessary condition of the credit judgment. Unimpressed with these rationalizations, young Spiegel persuaded his father to permit him to fill any orders created by newspaper advertising which came in the mail. Although this permission was primarily given out of parental gratification for the young man's first serious interest in business, it had a cogent economic foundation. Sales in 1904 were below the level of the previous year, so the regular staff and facili-

[3] Company records, Spiegel, Inc.

ties were operating below capacity; promotional outlays that stimulated out-of-town inquiries were already sunk. Since outbound freight charges would be paid by customers, variable operating costs would tend to rise less rapidly than sales, with a consequent increase in the contribution to overhead and profit. The volume of business serviced by the newly created department is unknown; that it was sufficient to earn Arthur Spiegel a $1,000 bonus is a matter of record.[4]

Young Spiegel then argued that the company should aggressively enter direct mail promotion of business. If the out-of-town sales had to fight their way into the house, what might be the result if the company deliberately encouraged the practice? There were, however, many more dimensions to this proposal than had characterized the earlier recommendation. The company was already profitable operating in a familiar market and there was every reason to assume it would remain so. It had no experience with direct mail methods, no knowledge of catalogue promotion, no mailing lists, and only a limited basis for appraising the capital requirements of such a venture. Clearly, if the company aggressively promoted a broader geographical market, it would be forced to make additional capital outlays for catalogues and other sales literature, for acquiring names and addresses of prospects, for carrying the receivables which a successful campaign would mobilize, and for carrying larger inventories. There were also other problems, such as handling out-of-town credit checks and collections, setting up effective record and order-handling systems, and finding additional merchandise sources.

Initially, then, the risks and uncertainties of entering mail-order retailing were substantial. The 1904 experiment had been profitable but it was not known whether this was merely the result of improper accounting for costs, and regardless of accuracy the experience was scarcely a good criterion for estimating costs and profitability for business obtained by means as yet untried by the company. On the other hand, the company was a successful merchandiser of installment credit, had proved the effectiveness of its selling techniques, had learned much about credit risks and controls, and possessed proved sources of supply. Did this experience and the developed business skills provide the minimum "internal conditions" that the economic environment would require? An examination of factors influencing demand, the structure and organization of retail distribution, and the opportunities for and barriers to entry

[4] *Ibid.*

in mail-order distribution provide some basis for evaluating the probabilities for success for the company if it accepted Arthur Spiegel's recommendation.

Conditions of the Economic Environment

With given utility functions, the demand for consumer goods can be roughly inferred from the amount and distribution of income. Population, however, is an important variable, particularly since its locational characteristics affect the consumption functions and the structure of merchandise distribution. The greater the disparity of distributional efficiency between regions and between communities within regions, the more pronounced would be the differences in real income received and, hence, upon demand for consumers' goods. Thus, in evaluating the opportunities offered a mail-order company during the first two decades of the twentieth century by the economic environment, population and income are important variables in measuring potential demand.

Market Potential: Population and Income

Population of the continental United States increased by almost 30,000,000 persons between 1900 and 1920, reaching 105,710,620. The over-all rate of growth of 39 per cent was not, however, distributed evenly either by regions or by urban-rural characteristics. Regionally, the Northeastern, Mountain, and Pacific Coast states experienced a relatively more rapid increase of population than did the rest of the country, whose share of the total diminished from 67 per cent to 64 per cent. These changes are shown in Table I.

TABLE I

Population: Regional Characteristics, 1900–1920[a]

(Numbers indicate millions of individuals)

	Northeastern		North Central		South		West	
Year	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
1900	21.1	27.0	26.3	34.7	24.5	32.3	4.1	5.4
1910	25.9	28.1	29.9	32.5	29.4	32.0	6.8	7.4
1920	29.7	28.1	34.0	32.2	33.1	31.3	8.9	8.4

[a] Northeastern is comprised of New England and Middle Atlantic states; North Central is self-evident; South includes South Atlantic and South Central states; West includes Mountain and Pacific Coast states.

Source: *Historical Statistics of the United States, 1789–1945* (Washington: United States Government Printing Office, 1949), p. 27.

In terms of urban-rural distribution, the population continued the earlier trend toward town and city residence; by 1920 population in communities of more than 2,500 persons for the first time exceeded rural dwellers. Urban growth for these 20 years was at a rate of 79.6 per cent compared to a rural population increase of 12.5 per cent. The growth rate for families for the same period was higher than the population increase, reflecting the reduction in average family size from 4.76 to 4.34 persons. Various factors influenced the diminution in average size of families, not the least important being the expansion both in the number of communities with populations of 100,000 persons or more and in the average population size of such cities. The increasing urbanization of the nation for this period is shown in Table II. Although the rates of

TABLE II

POPULATION: DISTRIBUTION OF, IN INCORPORATED COMMUNITIES, 1900–1920

A. Absolute – Population by community-size classification
(*In millions*)

Year	Over 100,000	50,000–100,000	25,000–50,000	10,000–25,000	5,000–10,000	2,500–5,000	Under 2,500
1900	14.2	2.7	2.8	4.3	3.2	2.9	6.3
1910	20.3	4.2	4.0	5.6	4.2	3.7	8.2
1920	27.4	5.3	5.1	7.0	5.0	4.4	9.0
	B. As percentage of total population						
1900	18.7	3.6	3.7	5.7	4.2	3.8	8.3
1910	22.1	4.5	4.4	6.0	4.5	4.1	8.9
1920	25.9	5.0	4.8	6.6	4.7	4.2	8.5

SOURCE: *Historical Statistics of the United States, 1789–1945* (Washington: United States Government Printing Office, 1949), p. 29.

population growth were significantly greater for the communities of 25,000 or more, the country remained characteristically rural and small town even in 1920. If communities of less than 5,000 persons are added to rural population, rigorously defined, the proportion these constituted of the whole was 64 per cent in 1900, 58 per cent in 1910, and 53 per cent in 1920.

Relative to the growth of population during these 20 years, the increase in national income was revolutionary. Total private production income rose from $14.6 billion in 1900 to $61 billion in 1920, a net gain of almost 318 per cent. Approximately two thirds of this increase, however, occurred during the years 1915–1920; the correspondingly rapid rise in commodity prices associated with the First World War, however, substantially wiped out these dollar gains.

For the entire period the increase in the general price level was below the rise in income measured in current dollars, with a commensurate improvement in real living standards. For the years through 1915, moreover, agriculture's share of national income remained roughly constant at about 20 per cent; by 1919 it had risen to over 22 per cent after which it fell to 17 per cent. Since the gain in agricultural income relative to population increase was substantially greater than the corresponding urban income-to-population ratio, the rural communities and farms enjoyed a greater degree of prosperity during these years. This can be seen in Table III. That these increases in dollar and real income effectively in-

TABLE III

National Income in Current Dollars, by Agricultural and Nonagricultural Shares; Population Change; and Wholesale Prices, 1900–1920

Year	A. Private Production Income: Total	Agricultural	All Other	Rural Population [a]	Nonrural Population [c]	Wholesale Price Index [b]
	(In billions)			(In millions)		
1900	$14.6	$3.0	$11.6	39.5		56.1
1905	19.4	3.7	15.7	—		60.1
1910	25.6	5.6	20.0	41.8		70.4
1915	29.1	5.9	23.2	—		69.5
1920	61.0	10.6	50.4	42.5		154.4
	B. Rates of growth, by periods (In per cent)				(In per cent)	
1900–1910	—	86.7	72.4	5.8	37.5	25.5
1910–1920	—	89.3	152.0	1.7	25.9	119.3
1900–1920	317.8	253.3	334.5	7.6	73.1	175.2
1900–1915	99.3	96.7	100.0	—	—	22.1
1915–1920	109.6	79.6	117.2	—	—	122.2

[a] All persons not residing in incorporated communities of the United States.
[b] All commodities, 1926 = 100. Bureau of Labor Statistics.
[c] All persons residing in incorporated communities of any population size.

Source: *Historical Statistics of the United States, 1789–1945* (Washington: United States Government Printing Office, 1949): Income (National Industrial Conference Board), p. 14; Price index, pp. 233–234; Population, p. 29.

creased the demand for consumers' goods is reflected by a recent study of American distribution. As estimated by Harold Barger, retail sales rose from $9.8 billion in 1899 to $17.8 billion in 1909, an increase of 81 per cent; for the following decade they rose to $45.9

billion, a gain of 158 per cent.[5] For the entire 20 years the rate of increase of retail sales was 366.5 per cent.

The preceding analysis indicates that the demand for consumers' goods was strong and vigorously rising during these years. Real and dollar income gains outstripped a favorable population growth, and the improved purchasing power was matched by increased sales. Favorable as this general situation was for distributing consumer goods, was it equally good for *all* distributive institutions? What did the shift in population away from rural areas imply for mail-order companies? Were there structural weaknesses in the retail distributive system that could be exploited by a mail-order organization, and if these existed were they associated with particular combinations of population and income distribution?

Retail Distribution, Structure and Characteristics

Retailing in the United States during these 20 years was characterized by significant structural and organizational changes as well as by growth of sales volume. Spearheading these changes was the rapid expansion of large-scale retailing, particularly the department store, corporate chains, and mail-order houses. In addition, the increase in the number and size of communities was reflected in an expansion in the number and type of specialized retail institutions. There was a commensurate decline in importance of small-scale general stores which, for over a century, had been the characteristic retail institution in the country.[6] Large-scale retailing was characterized by both horizontal and vertical integration, combining "specialty" departments into larger organizational molds and, increasingly, absorbing functions otherwise performed by wholesalers. In addition to providing larger aggregations of capital, centralized ownership and management were associated with central buying and merchandising, and with more uniform unit layouts, more effective control of inventory, and other efficiencies associated with greater size. Chain retailing during these years experienced its most significant gains in the distribution of foods, shoes, furniture, and variety goods.[7]

Underlying the growth of retailing and strongly influencing the changes in structure and organization was the development of domestic consumers' goods manufacturing. Not only did factory output increase more rapidly than did the increase in retail sales,

[5] Harold Barger, *Distributions' Place in the American Economy Since 1869* (Princeton, 1955), pp. 148–149.
[6] Paul H. Nystrom, *The Economics of Retailing* (3d ed.; New York, 1930), p. 80.
[7] Barger, *Distributions' Place Since 1869*, pp. 148–149.

but the output mix changed substantially as consumers' durable and semi-durable goods production increased at relatively more rapid rates than did the output of perishable merchandise, particularly for the years after 1909. This can be seen in Table IV.

TABLE IV

VALUE OF PRODUCERS' OUTPUT, AT PRODUCERS' CURRENT PRICES, 1899–1919

Year	Total Consumers' Goods Manufactured	Total Perishable Goods	Total Semi-durable Goods	Total Durable Goods
A. Absolute Quantity				
		(In millions of dollars)		
1899	5,923	4,007	1,313	603
1909	10,496	6,970	2,377	1,149
1919	29,825	18,827	7,031	3,968
B. Rates of Growth				
		(In per cent)		
1899–1909	77	74	81	91
1909–1919	184	70	196	245
1899–1919	404	370	436	558

SOURCE: William H. Shaw's National Bureau of Economic Research Study as tabulated in *Historical Statistics of the United States, 1789–1945* (Washington: United States Government Printing Office, 1949), pp. 183–184.

The expansion of industrial production for this period greatly exceeded that experienced for the decades 1879–1899, with important consequences for the channels of distribution. During the earlier period distributors typically sought the sources of supply, and manufacturers had relatively less need to promote their products actively. With the huge increase in output after 1899, however, the locus of marketing initiative began to shift. Not only did manufacturers respond more readily to the patronage of integrated distributors in the production of more standardized and uniform products, but they also undertook to promote their products aggressively by direct selling and advertising. While manufacturers sold to all distributors, it was a corollary of the increased capacity to produce that they would provide those distributors who could guarantee larger and more consistent orders with price and service differentials. Combined with the integrative moves of the larger distributors, these concessions constituted a base for lower average markups and enhanced the ability of the more efficient distributors to sell at lower retail prices.

As indicated, however, neither productive facilities nor output increased at a uniform rate for manufacturing generally. In view of the product lines which the Spiegel mail-order enterprise would

handle, the increase in output of certain categories of merchandise is particularly pertinent. This can be seen in Table V. Obviously,

TABLE V

VALUE OF CERTAIN PRODUCERS' SEMI-DURABLE AND DURABLE OUTPUT, AT PRODUCERS' CURRENT PRICES, 1899–1919

A.	Semi-durable			Durable			
Year	Footwear, Clothing, Personal Furnishings	House Furnishings	Dry Goods & Notions	Furniture & Coverings	Household Appliances [a]	China, Utensils & Misc. Furnishings	Watches, Clocks, Jewelry, Musical Gear [b]
	(In millions of dollars)						
1899	1,015	41	219	154	62	105	115
1909	1,893	73	329	274	107	171	213
1919	5,125	213	986	649	351	455	561
B. Rates of Growth							
	(In per cent)						
1899–1909	87	78	50	78	73	63	85
1909–1919	171	92	200	137	228	166	163
1899–1919	405	420	350	321	466	333	388

[a] Includes heating and cooking apparatus and electrical appliances.
[b] Includes silverware and musical instruments.

SOURCE: *Historical Statistics of the United States, 1789–1945* (Washington: United States Government Printing Office, 1949), pp. 183–184.

all the main classes of these goods were moving through the distributional channels at rates relatively greater than the expansion of income and population of the country. The principal merchandise lines the company would carry, namely, furniture, floor coverings, heating and cooking apparatus, clothing, and semi-durable house furnishings, were both in demand and being manufactured in such quantity as to assure sources of supply.

Steady industrialization and rising manufacturing efficiency were roughly matched in the field of distribution by the rise of the large-scale department stores and chain operations such as F. W. Woolworth, Atlantic & Pacific Tea Company, McCrory, and S. H. Kress.[8] Under the impact of such distributors old practices were shattered or seriously weakened. Individual bargaining gave way to one-price policies, the use of drummers and "pullers" by retailers declined, sensational promotional schemes yielded to more honest advertising, advertising itself gained a new prominence and importance, and women found new and expanded opportunities for employment.[9] Yet it was primarily in the larger populated com-

[8] Nystrom, *Economics of Retailing*, pp. 216–224.
[9] *Ibid.*, p. 91, *passim*.

munities that more efficient retail merchandising and selling occurred. While the growth of chain stores provided smaller towns with at least some retail outlets superior to the small specialty stores and general stores, the chain invasion was not yet on a broad enough scale to result in the intensity of competition that would provide a significant general improvement in small-town retailing. Nowhere in the retail structure was the weakness more glaring than in the country general stores, and it was this debility combined with generalized agrarian discontent with the entire pattern of distribution and pricing in the United States during the 1870's which led to the organization of the first of the big general mail-order company, Montgomery Ward.[10]

There were sound economic causes for the relative inefficiency of general store retailing in the country towns of the South and West. Transportation and communication facilities were poor, even nonexistent; customer needs required that a fairly broad line of merchandise be carried, but stocks were often inadequate, variety limited, and merchandise turnover slow. Farmers were the principal patrons of such retailers and the very nature of agriculture made long-period credit extension by retailers a necessary condition of business. This, of course, was not free, and these charges, which included the merchant's estimates of his bad debt risk, were added to the pyramiding transportation and handling charges and successive manufacturers' and wholesalers' margins.[11] The result was high prices to farmers and residents of small towns. When such prices were added to miserable merchandising, inadequate stocks, doubtful quality, and what, particularly in some parts of the South and West, amounted to debt slavery, the readiness of farm and small-town populations to accept anything better is apparent.[12]

Mail-Order Distribution: Structure and Organization

Mail-order retailing, however, was prepared to utilize the transportation and communication system then existing in the rural areas to advantage, and to offer effective competition to general store merchants. Such retailing was not an innovation of the late nineteenth century; it had been in use by retailers since the Colonial period to serve customers who had moved to more remote locations. The growth of mail-order distribution after the Civil War

[10] See Solon J. Buck, *Harvard Historical Studies*, vol. XIX: *The Granger Movement* (Cambridge, 1913), pp. 16 ff.; Fred A. Shannon, *The Farmer's Last Frontier* (New York, 1945); and Boris Emmet and John E. Jeuck, *Catalogues and Counters* (Chicago, 1950), pp. 19–20.

[11] Thomas D. Clark, *Pills, Petticoats and Plows* (Indianapolis, 1944), pp. 316–317. See also, Emmet and Jeuck, *Catalogues and Counters*, pp. 16–18.

[12] Clark, *Pills and Plows*, pp. 316–317.

was a function of the westward flow of population, on and behind the frontier, and of the development of magazines carrying the advertisements of distributors of a variety of merchandise.[13] Yet it was not until the era of marked agrarian discontent and the enactment of new postal legislation that mail-order distribution experienced a remarkable organizational change which had profound effects upon American consumption behavior and the structure of retail distribution alike.[14] The vital organizational change was the development of large-scale firms selling a broad line of merchandise exclusively by mail. Although department stores and other retailers continued to handle mail-order business as an auxiliary to their regular activities, the pure mail-order house became the dominant organizational form in the field after 1890.

While Montgomery Ward was the first pure mail-order firm organized to serve rural markets in direct competition with the country general stores, mail order did not become a serious force in the United States until the advent of Sears, Roebuck & Company in 1893. According to Barger, mail-order sales amounted to only $31 million in 1899, but rose sharply to $165 million in 1909 and to $543 million in 1919.[15] The structure and organization of the retail mail-order industry during this period reflected the competitive strength of the large organization devoting itself exclusively to this form of distribution. By 1900 two firms dominated the industry, establishing a paramountcy which was not thereafter seriously challenged. Sears, Roebuck and Ward, respectively, became the first and second companies, ranked by sales volume and assets, in the industry and the combined sales of these two comprised over 60 per cent of national mail-order volume through 1919.[16] Third in size in the industry was the National Cloak and

[13] Nystrom, *Economics of Retailing*, p. 175; Emmet and Jeuck, *Catalogues and Counters*, p. 19.

[14] In 1873 use of the one-cent postal card was permitted, followed a decade later by the two-cent first-class letter rate (Nystrom, *Economics of Retailing*, p. 194). Legislation enacted in 1879 classified mail-order publications, including catalogues, as "aids in the dissemination of knowledge," which permitted promotional pieces to be mailed at the third-class rate of one cent per pound (Emmet and Jeuck, *Catalogues and Counters*, p. 13). A system of rural free delivery was adopted in 1896 which was "of incalculable value to the mail-order business" mitigating the physical isolation of farmers, "an isolation that must be given an important weight in accounting for the farmer's eagerness to make literature of the huckstering cries of the mail-order catalogues" (Emmet and Jeuck, *Catalogues and Counters*, p. 14). Finally, in 1912, the Parcel Post Act opened new opportunities for the mail-order companies by reducing the fourth-class rates on packages weighing over four ounces. The initial combined length-and-girth limitations of 72 inches and weight restriction of 11 pounds were liberalized during the next two years, and the big companies easily overcame the zone system, inserted in the bill by anti-mail-order interests as a restraining device, by establishing geographically dispersed shipping and distribution points (Emmet and Jeuck, *Catalogues and Counters*, pp. 187–190; Nystrom, *Economics of Retailing*, p. 194).

[15] Barger, *Distributions' Place Since 1869*, p. 148.

[16] *Ibid.*; Nystrom, *Economics of Retailing*, p. 178; Emmet and Jeuck, *Catalogues and Counters*, pp. 172, 204.

Suit Company, organized in 1888, and the Larkin Company of Buffalo, New York, which entered mail order in 1885 as a purveyor of soaps, washing powders, and specialty grocery products, was probably fourth in volume in 1905.[17] Following these firms came a host of small, usually specialized, companies such as Chicago Millinery and Mail Order Company, plus the mail-order departments of a number of the larger department stores of which R. H. Macy, Wanamaker, Filene, and Spiegel-Cooper Company were probably the most important.[18] A general picture of the relative importance of the three leading firms in the mail-order industry over the years of this period is provided in Table VI.

TABLE VI

SALES VOLUME IN THE MAIL-ORDER INDUSTRY, 1900–1919

Year	Sears, Roebuck	Montgomery Ward	National Cloak & Suit	Total Industry
		(In millions of dollars)		
1900	10.6	8.9	—	—
1909	51.0	—	—	165
1913	91.4	39.7	13.3	—
1919	234.0	99.3	39.4	543

Mail-Order Industry: Conditions of Entry and Market Opportunity

Theoretically, the opportunities for utilizing successfully mail-order methods of distributing consumers' goods were as broad as the retail markets generally; practically, however, they were constrained by effective competition from efficient retailers in the cities and larger towns. Here, retailing benefited from the improved local and interurban transportation systems which enabled consumers to visit the main shopping centers regularly and to inspect merchandise before ordering. In the countryside and the smaller communities mail-order opportunities were excellent, and the disadvantages of persuading people to order goods from illustrations and printed descriptions were largely overcome by the fuller lines, lower prices, and generous returns and quality guarantees of the mail-order houses. That farmers responded so enthusiastically to the opportunity of dealing with remote sellers can be attributed to the isolated nature of American agriculture and to the indifference of farmers to the interests of nearby communities.[19]

[17] Nystrom, *Economics of Retailing*, pp. 185–186.

[18] *Ibid.*, p. 187; Emmet and Jeuck, *Catalogues and Counters*, p. 22; Bessie Louise Pierce, *A History of Chicago*, vol. III, *The Rise of A Modern City, 1871–1893* (New York, 1957), p. 182.

[19] Nystrom, *Economics of Retailing*, p. 191.

A further limitation upon the mail-order markets was imposed by transportation economics, particularly in the era before 1913. Depending upon the weight of the merchandise purchased and the prices charged by local merchants, any mail-order house was geographically circumscribed by transportation costs to a certain area near the location of its plant, or the plants of suppliers where direct-from-factory shipments were made. This limitation, however, could be overcome to the extent that a company could establish geographically separated branch plants, or was competitively able to absorb shipping expenses. Sears and Ward, in fact, began such decentralization in 1905–1906, moves which enabled them to strengthen their competitive position vis-à-vis local retailers and other mail-order sellers alike.[20]

The success of mail-order selling after 1890 thus came in general from increased demand for consumers' goods, and in particular at the expense of country and small-town merchants. The latter reacted violently to the inroads made in their markets by the mail-order houses, the forms of their opposition ranging from organized pressure groups and legislative lobbies to public catalogue burning and social ostracism of persons who patronized the mail-order companies.[21]

The wave of this antagonism gathered force after 1900 and crested during the era 1905–1916. The mail-order companies were forced to ship merchandise in unmarked packages to spare customers from humiliations which the outraged country merchants were all too prepared to heap upon them,[22] and they were exposed to undisguised xenophobia and scurrilous anti-Semitism.[23] Yet all such attacks were blunted on the shield of mail-order prices, efficient operating organizations, able merchandising, and effective counter-promotion. The fight against mail order was carried on by local small-town and village merchants, but the outcome was inevitable.

The conditions of successful entry in the industry were not, however, restricted only by these factors. In addition, an entrant needed a mailing list, working capital to finance initial inventory and operating expenses, and space for storage, order assembly, and packing. The human skills required included some sense of organization and timing, a sense for the market and merchandise appropriate to it, and some ability to communicate effectively with consumers.

[20] Emmet and Jeuck, *Catalogues and Counters*, p. 79.
[21] David L. Cohn, *The Good Old Days* (New York, 1940), pp. 505 ff.
[22] Emmet and Jeuck, *Catalogues and Counters*, pp. 161–162; Spiegel, May, Stern Company, Consolidated Catalog, Fall, 1907.
[23] Emmet and Jeuck, *Catalogues and Counters*, p. 151.

Depending upon the merchandise the entrepreneur elected to handle, the capital requirements for entry were fluid. Montgomery Ward, for example, began with $2,400 while Sears, following several ventures, entered for under $75,000.[24] A going retail firm, as Spiegel House Furnishings Company demonstrated, could enter with only a modest increment in expense. Successful entry on a larger scale, however, required a materially larger investment, particularly in 1905 when the leading companies in the industry had already acquired operating experience, a distinctive regional or national reputation, and a niche in one or more segments of the mail-order market. Mail-order gross margins were in the range of 24–26 per cent of net sales during these years,[25] while operating expense, at least for Sears, averaged around 17 per cent for the years 1902–1905.[26] During these years Sears enjoyed a sales-working capital ratio in the range of 5.85 to 7.79, which meant that if a firm sought sales of $1 million the working capital requirements would have been in the range $167,000 to $188,000.[27] In addition, such a firm would have had to operate as efficiently as Sears (or Ward) and to conduct its business on the same bases, that is, cash, broad product line, and efficient catalogue distribution and circulation control. That this was difficult to achieve is supported by the experience of the mail-order departments of large department stores; most of these abandoned direct catalogue solicitation around 1910 presumably because their costs of operation and promotion were too high.[28]

Although successful entry could be achieved by a specialty company with limited capital resources, such firms could not achieve the economies of scale associated with larger enterprises. Catalogue appeal and circulation given, the probability of getting a sale from a catalogue increased directly with the number of pages and the number of merchandise items carried. Moreover, because of the nature of fixed catalogue costs, the larger company handling a broader line could economically push circulation substantially beyond that which could be attained by the more limited-line house. Similar economies were enjoyed by broad-line houses in space utilization, order-handling and assembly, purchasing, and transportation.

It was not, however, necessary to enter the industry on the basis of direct and complete competition with the leading firms. As has

[24] *Ibid.*, pp. 20, 35.
[25] Barger, *Distributions' Place Since 1869*, p. 92.
[26] Emmet and Jeuck, *Catalogues and Counters*, p. 175.
[27] *Ibid.*, pp. 172, 294.
[28] Nystrom, *Economics of Retailing*, p. 187; Emmet and Jeuck, *Catalogues and Counters*, p. 175.

been indicated, the mail-order market was not homogeneous, and firms could compete on the bases of terms of sale, geographical location, merchandise, price, quality, and fashion appeal. Although in direct competition with Ward, Richard Sears built his company on the basis of a unique package of "*promotable* merchandise and prices," aggressively and extensively advertised.[29] National Cloak and Suit, which later merged with another firm to form National Bellas Hess, achieved a distinctive position as an apparel fashion house.[30] Both Sears and Ward were cash houses during these years, as was also true of most mail-order sellers; yet even within the cash-payment framework differentiation was possible. A firm could sell on terms of cash-with-the-order, as Ward did and, with some exceptions, Sears; or it could feature cash-on-delivery such as characterized Chicago Mail Order and other firms.[31] The latter plan had the merit of overcoming consumer resistance to buying-before-seeing, coupled with the disadvantage of increased returned and not-taken merchandise.[32] Credit terms provided a further basis for competitive differentiation in that customers not only could inspect merchandise before paying but could finance the purchase out of future income. These advantages, however, were substantially offset by greater operating expense, associated with credit checks and collections, and by the greater working capital requirements necessary to carry customer receivables. The additional costs and bad-debt risk of credit selling, moreover, required either higher prices, lower profits, or both, and had the effect of raising sales resistance or discouraging investment.

In addition to these disadvantages, there were others associated with differentiation on the basis of credit, factors which were exogenous for the individual firm. Buying consumer goods on credit was a familiar phenomenon in the United States, particularly for rural populations where it was a matter of necessity. Not only were the goods carried by country general stores sold on long-term credit, but books, musical instruments, and sewing machines were marketed on the same basis.[33] Yet if American westward expansion had been facilitated by the use of long-term credit, the experience had not been a particularly pleasant one for consumer or seller. Among the characteristics of more progressive retailing, in fact, was

[29] *Ibid.*, p. 174.

[30] Nystrom, *Economics of Retailing*, p. 185; M. J. Spiegel, chairman of the board, Spiegel, Inc.

[31] Emmet and Jeuck, *Catalogues and Counters*, p. 74; Robert Engleman, vice president, Spiegel, Inc.

[32] Emmet and Jeuck, *Catalogues and Counters*, p. 74.

[33] Cohn, *The Good Old Days*, pp. 519–520; Nystrom, *Economics of Retailing*, p. 81; Reavis Cox, *The Economics of Instalment Buying* (New York, 1948), pp. 62–63.

the sharp reduction in the maturities of customer obligations and the absolute amount of merchandise sold on credit. To no small degree this was due to increasing urbanization and industrialization and the receipt of regular cash income for a constantly expanding proportion of population, but American attitudes toward debt were an important contributory force. Although forced to make use of long-term credit in the past, the institution had never been morally sanctioned, particularly as it applied to consumers' goods. If installment buying was a convenience, it was also regarded as another form of debt creation which, in that day, was considered "hardly worse than drink, whose lurid consequences enlivened even the chapters of etiquette books" among the cardinal sins.[34] Further, those who bought on installment publicly demonstrated their lack of cash. For those who were sober and respectable this admission came hard, and those who blithely risked social reputation by installment buying were not usually the best credit risks. Farmers, however, were bound by necessity, and installment selling should have provided a sound basis for successful differentiation by a company willing to service that market. That it was not developed is attributable to the huge investment in receivables required and the risks of loss involved. Even Sears, with its solid farmer patronage, refused to sell anything but durable goods on installments during these years and its total credit sales comprised but 2.2 per cent of its sales for the years 1911–1916.[35] Ward sold nothing on credit until 1921–1922, and only for a 10 per cent premium.[36]

As if this syndrome of resistance to the successful use of installment-credit plans to broaden the market and develop a protected niche were not difficult enough, a mail-order firm specializing in household furniture and furnishings was confronted by still another obstacle. This was the nature and reputation of the installment furniture retailer, where questionable price practice, padded markups, and questionable merchandise quality were identified with a credit plan.

Environmental Adoption and Managerial Adaptation

The managers of Spiegel House Furnishings did not, of course, have at their disposal much, if any, of the foregoing data upon which to base a rational decision. They did know the retail furniture

[34] Cohn, *The Good Old Days*, p. 519.
[35] Emmet and Jeuck, *Catalogues and Counters*, pp. 266, 301.
[36] *Ibid.*, pp. 267–268.

business and were conscious of their relative superiority in the Chicago market. By inference, this pre-eminence provided them with an advantage over furniture retailers in smaller towns. Since they would sell on an installment plan, it would be these merchants rather than the large mail-order cash houses who would comprise the competition. The Spiegels were also aware of the success of Sears and Ward in the general mail-order field and could hardly be ignorant of the rising antagonism of small-town merchants toward these companies, an antagonism reflecting the competitive weakness of such merchants.

An evaluation of the data concerning the growth of population and the number of families, rural-urban and town-size distribution of population, the trend in the formation and distribution of income, the growth in the productive capacity of American industry, and the structure and organization of American retailing, argue strongly that if Spiegel House Furnishings entered mail-order distribution of consumer goods it should segment its market carefully. Given the policy of selling only on installment credit, the risks involved, and the company's resources, the large farm markets should be avoided. Given the relative efficiencies of retailing in the cities and large towns these population centers should also be avoided, despite the company's greater familiarity with urban buying characteristics and the relatively rapid growth of these centers. This left towns of less than 10,000 population as the principal market, and although such towns enjoyed a less rapid rate of population (and new family) growth, they tended to share in the relative agricultural prosperity of the period while their consumption aspirations were being less than adequately served by local retailers. It is of fundamental interest that without this array of information the Spiegels concentrated upon this market segment almost from the start. In 1913, when supplying data to bankers, Arthur Spiegel observed that the company's markets were confined "almost exclusively" to towns of 5,000 or fewer population.[37] While the Spiegel example is obviously too small a sample upon which to base any generalized conclusion, it would seem to raise the question of whether Alchian's "venturesome and lucky" profit gatherers in conditions marked by great uncertainty are not also characterized by shrewd intuition and the capacity for reacting swiftly to such instinctive knowledge. For if such a rare characteristic exists and is possessed by the successful entrepreneur, it would seem an effective substitute for more objective knowledge, enabling its possessor to

[37] Arthur H. Spiegel to Mssrs. Ladenburg, Thalman & Company, Nov. 18, 1913.

evaluate alternatives "rationally" and establish the criteria for decisions.[38]

Spiegel House Furnishings, under the unremitting goading of Arthur Spiegel, elected to enter mail-order distribution more aggressively, but his brothers hedged the decision by insisting that the operation be confined to the territory lying within a radius of 100 miles around Chicago. Operating with a small catalogue and pick-me-up mailing list, Arthur Spiegel's little department obtained sufficient orders in 1905 to boost company profits to $143,000, the highest single year the firm had yet enjoyed. Although the volume of mail-order sales is unknown, it was large enough to require additional space for order handling, account servicing, and inventory stocking, necessitating movement of the entire operation to a new location. The success was also sufficient to result in the abandonment of the original geographical market restriction the following year, when a 25-state market was promoted with two seasonal general catalogues and a special heating-and-cooking equipment book.[39] Arthur Spiegel acquired mailing lists by any means possible, including giving premiums to the wives of postmasters and station agents; he assisted in the preparation of catalogue copy, doubled as a buyer, wrung the rapidly mounting working-capital requirements from plowed-back earnings and local banking accommodations, and pushed himself and an undermanned and inexperienced staff to the limit of physical endurance. As a result, mail-order sales for 1906 amounted to $980,000 and contributed $182,000 to aggregate company profits of $264,000.[40]

The very magnitude of this success, however, outran company resources. At the moment when intuition, singular self-confidence, and audacious action had secured the vital initial market niche, and when the situation cried out for continuing such a posture, the opportunity was permitted to slip away. Obviously long-term capital and additional lines of short-term credit were required if the momentum of growth was to be maintained. The alternatives available to the management included plowing back the profits of the entire firm into mail-order expansion and seeking outside capital for the rest, either on an equity or debt basis. The demonstrated achievement of their mail-order department and the company's financial connection with A. G. Becker & Company, which had supplied the Spiegels with short-term debt capital since 1895 and

[38] For the general statement advanced by Alchian see the *Journal of Political Economy*, vol. 58 (June, 1950), p. 218.
[39] The Furniture Catalogue, Spring, 1906 (Spiegel House Furnishings Co.).
[40] Spiegel, Inc., company records.

was prominent in Chicago's financial markets, argue that long-term financing on terms which would have insured continued Spiegel control was possible. To what extent the Spiegels probed this possibility is not definitely known. With the exception of Arthur, the Spiegels were oriented to conventional retailing. With the profitability of the organization as then constituted apparently assured, the Spiegels seemingly were more interested in dividends and liquidity than in continued aggressive action in mail order. Further, during 1905 the company had completed an arrangement with Aaron Waldheim, president of the May, Stern stores, a chain of credit retail outlets scattered over the Midwest, to liquidate the stock and receivables of the Chicago outlet. This transaction had resulted in mutual satisfaction, for Spiegel House Furnishings had moved its main store to the old May, Stern premises on Wabash Avenue in the Chicago Loop. Seeking an alternative which would permit them to retain a control over the mail-order department while reducing their investment in that venture and restoring the liquidity of the parent organization, the Spiegels approached Waldheim as a possible source of capital.

Waldheim, however, insisted that the Spiegel mail-order department be set up as a separate corporation, that in return for $225,000 of stock in the new firm he would receive 40 per cent of the equity but 50 per cent of the voting power. The Spiegels agreed to these terms, which may be an indication that alternative choices were less favorable. The new corporation titled Spiegel, May, Stern Company was chartered in West Virginia, whose incorporation act permitted the voting arrangement demanded by Waldheim,[41] and began operations in January, 1907. The $225,000 paid by Waldheim for his interest in the new firm did not go into new working and fixed capital, however, but was used by Spiegel House Furnishings to restore that company's liquidity, retire notes outstanding, and pay a $28,000 dividend. The new company began business as tightly pressed for capital as had been the mail-order department of the parent firm. Instead of long-term capital, relatively free from restriction upon its use, the company acquired a nonworking vice president who was fundamentally concerned with dividends and not particularly responsive to Arthur Spiegel's ambitions for growth. Waldheim's personal wealth and business reputation probably facilitated the company's efforts to improve its short-term credit

[41] Spiegel, May, Stern Company Charter (Chapter 24, West Virginia Code, 1924); A. H. Spiegel to Messrs. Ladenburg, Thalman & Co., Nov. 18, 1913; Memorandum signed by Carl Meyer, of Mayer, Meyer, Austrian & Platt, the company attorneys, dated Dec. 13, 1906.

accommodations and added additional sources of merchandise supply. Other than that, however, he contributed little more than business advice. The opportunity of tying two chains of retail stores to a mail-order operation – the pattern followed so successfully by Ward and Sears 20 years later – to exploit market segments in large towns and cities, as well as in the rural small communities, was apparently never considered. Spiegel, May, Stern; Spiegel House Furnishings Company; and May, Stern Company remained separate corporate entities and no attempt was made to provide centralized direction, merchandising, or buying.

The initial management of the new company, other than Waldheim, consisted of Arthur H. Spiegel as president, Sidney M. Spiegel, who became "merchandise manager" in 1908, shifting his activities from the retail business, and an assortment of people who had served their apprenticeship with Arthur Spiegel. Two professionals were brought in from Sears, Roebuck to organize and direct the establishment of more efficient accounting, order servicing, and customer accounts handling. The buying staff was very small with broad divisions of labor, and until 1910, when a professional mail-order advertising man was hired, Arthur Spiegel assumed direct responsibility for selling, catalogue production, and circulation. During the first few years warehousing and physical order handling were relatively simple functions, due to the nature of the line of products handled. Not only was this activity and its direction regarded as routine by management, but in time came to be held in jocular contempt.

Basic policies of the company were inherited from the retail furniture background. In addition to the credit policy, which initially called for a down payment of about 15 per cent with balances maturing within a year, pricing policy was a function of markups which were approximately 100 per cent of net cost of purchases.[42] Company product policy during 1907 was a continuation of that which existed when mail order had been merely a department in the retail operation: other than seasonal items, such as a few toys, games, umbrellas, and a few items of soft goods, the product line consisted of furniture for the household, mattresses, heating-and-cooking equipment, and a limited number of dinner and cooking utensils. Prominent among the marketing deficiencies was the inability of the firm to maximize sales from a given circulation of catalogues or special sales literature. This, of course,

[42] From financial data for the Spiegel House Furnishings Company and Spiegel, May, Stern, reconstructed from old records in the Spiegel archive.

was a function of the limited product line carried, and could be modified only by a modification of product and merchandising policy. Of at least equal importance was the need to overcome consumer attitudes which inhibited buying on installment credit. By popularizing credit, by making it easier to obtain and making it available for all categories of merchandise, the company could consolidate the niche which acceptance by the economic environment had originally provided, developing that niche into a strong market position.

Product Line Expansion Through Organizational Decentralization

With a relatively short line of hard goods, Spiegel, May, Stern obtained sales of $1.5 million in 1907, a gain of 55 per cent over 1906 volume, but the more rapid increase of operating and promotional expense produced profits of $145,000, down 20 per cent from the previous year. At this point, Arthur Spiegel became convinced of the need to broaden the firm's merchandise base. In 1908, when the company moved to its newly constructed warehouse and offices on 35th Street, apparel, piece goods, gravestones, and pianos were added to the line, followed shortly by watches and jewelry.

Broadening market appeal through extension of product variety and greater selection within lines was, of course, a conventional strategy. What made the Spiegel decision unique was the change in organization structure entailed by this decision. Instead of merely expanding the line within the given firm structure, entirely new companies were set up for men's apparel, women's apparel and piece goods, pianos, and jewelry, with separate catalogues and promotional literature for each company. Spiegel, May, Stern initiated the organization of the apparel firms, retaining a 50 per cent interest in each. These companies dealt in both ready-to-wear and made-to-order apparel, merchandising them on an installment-payment plan which required higher down payments and shorter time terms than did the parent company. The piano and jewelry enterprises were essentially paper organizations created for the purpose of promoting this merchandise and keeping separate the titles and brand names from the products and identity of the main house. Spiegel officers were active in the direction of both types of subsidiary.[43] When Arthur Spiegel became disillusioned with his partners in the women's apparel subsidiary, he liquidated the company's share in the enterprise and in 1914 organized a new,

[43] Corporate Minute Book, 1908–1909, Spiegel records.

wholly owned, subsidiary under the name "Martha Lane Adams." This subsidiary continued to operate as a separate entity until 1927, but the interest in the men's wear firm was sold in 1922 and the other affiliates and subsidiaries liquidated by 1914.

Decentralization by a relatively small firm was an unusual organizational procedure, but one which was based on what the Spiegels believed to be sound reasons. Arthur Spiegel perceived the advantages to be gained by broadening the company's appeal to customers by an extension of merchandise offerings, and there were definite prospects of reducing overhead unit costs of promotion and order handling by such a step. The decision to broaden the lines by organizing new subsidiaries to handle the newly added products, however, required a duplication of many operating functions and, with the exception of promotion where the advertising and selling for the subsidiaries was handled in the main house, afforded no reductions in expense. Two reasons can be advanced for this decision. The first involved the attitudes of the Spiegels toward apparel and soft lines generally. As furniture and hard-goods merchants they were contemptuous of nondurable merchandising. As a former company executive observed, the Spiegel managers, when speaking of the apparel business would snort, "the rag business, the dirty rag business." [44] The second reason reflected the anxiety management felt concerning the debt-paying habits of persons who bought clothing rather than household goods. A current company executive commented that "they were scared stiff of credit losses in clothing, and I don't think they ever lost that fear. At least they still had it during the 'twenties." [45]

Thus by the use of subsidiary firms for merchandising soft lines Spiegel, May, Stern was able to manage the problem of setting up separate terms of sale for the general classes of merchandise handled, thereby reducing some of the risks of bad debt loss. In a broader context, however, the maneuver can be interpreted as a desire to develop the public image of the company principally as a house furnishings supplier, and to capitalize on the vigorous promotional campaign which was designed, at least in part, to distinguish Spiegel, May, Stern from conventional credit furniture merchants.

Image Building and Credit Merchandising

As the management gained experience in the mail-order market and as the controls over credit extension proved acceptably effec-

[44] Thornton Adams, interviewed by the author in 1957.
[45] Frederick W. Spiegel, vice president, Spiegel, Inc., 1957.

tive – a loss rate of 4 per cent or less on net sales – the company moved to merchandise its credit appeal more aggressively by extending no-money-down terms to preferred customers. This, in effect, liberalized the time features of the installment plan and added to the general appeal of the house. Similar liberalizations of credit followed with respect to credit policy within the apparel subsidiaries. Among the experiments with credit tried by the company was the "add-on," proposed by the company's advertising manager, Edward L. Swikard. Swikard, an excellent mail-order advertising craftsman who had joined the organization in 1910, introduced the plan in the summer of 1918 in a special Fall sales book in an effort to increase the size of the average seasonal order from preferred customers. He stressed the opportunity of adding a current order to the existing customer's balance "without increasing the amount of the installment" if the aggregate of the old balance and the new purchase was roughly equivalent in size to the original balance.[46] This was the first attempt to offer an add-on privilege in mail order, and may well have been the first trial of the technique in American retailing. Unfortunately, the experiment was tried after the death of Arthur Spiegel, and the new top management failed to perceive the ultimate power of the instrument as a business builder.

The development of credit merchandising, however, was undertaken within the framework of a promotional campaign designed to popularize credit among people who regarded installment buying as being undesirable and somewhat morally suspect. The success which this campaign enjoyed was achieved by careful and consistent emphasis in catalogues and other literature upon the themes of respectability and accommodation of desires to improve a living standard with limited but regularly received income, as well as the reputability and integrity of the company. Arthur Spiegel intuitively perceived the necessity for this program and began implementing it as early as 1906. Selected examples of the techniques and themes employed between 1907 and 1915 provide the essence of the program. The first dramatic appearance of these themes appeared in 1907 when Arthur Spiegel retaliated against the anti-mail-order postures of small-town merchants who were extolling the fact that they sold for credit while mail-order firms insisted on cash. Although he identified Spiegel, May, Stern with the industry by emphasizing that "all mail-order houses with their enormous buying capacity" could price well below other retailers, he was

[46] September Sales Book, Spiegel, May, Stern Company, 1918. Also, interviews with Edward L. Swikard (1956), and H. George Meinig, a former executive of Spiegel, Inc., 1957, 1960.

most concerned with attaching this concept of size and price advantage to Spiegel. Further, he pointed out that ". . . your local dealer cannot offer you anything in the way of credit which this house cannot . . . [and] you can have all the time you need to pay, sure of prompt, courteous, and liberal treatment."[47] The inference of economic size, with the implications of strength, power, and reputability, had been initiated in the new corporation's first catalogue. Here appeared pictures of various retail outlets operated by May, Stern and Spiegel House Furnishings, and statements about $7 million aggregate capital and "twenty-five mammoth stores located in the principal cities of the United States."[48] The facts, of course, were quite different, as has been shown, but what reader could confuse a firm of this importance with a little backstreet installment house, or question the service capacity of an organization which "bought and sold more goods than any [other] three concerns in our line . . . [which] means that we can practically control the output of every factory with whom we contract for the manufacture of our goods?"

Other sales messages in subsequent catalogues emphasized the superiority of style and construction of furniture purchased by the "largest and finest stores in Chicago a year before other [small-town] dealers" had the opportunity of buying or dared undertake the risk of stocking. That the company had imitators was casually admitted, but how good were such substitutes for a firm which " . . . employ[s] a staff of the most experienced and skilled designers in the country?"

A sales letter sent to households which had received a seasonal catalogue but had not ordered merchandise is representative of the struggle to integrate social status with installment buying. Here the role of credit in the purchasing behavior of the affluent was tied to the needs and aspirations of lower-middle and working-class families. Professing anguish at the lack of consumer response, management claimed to have surveyed a group to whom the letter was directed, learning that hesitancy to use credit was the typical reason for not buying from Spiegel. Yet, the letter continued, wealthy people in town and city alike bought goods on credit, and regarded such practice as normal and convenient. Why shouldn't less fortunate but equally honest and respectable people, those who needed the installment accommodation more than the rich, take advantage of the ease of obtaining Spiegel credit, the openness of the credit

[47] Consolidated Catalog, Spiegel, May, Stern Company, Fall, 1907.
[48] Furniture Catalog, Spiegel, May, Stern Co., Spring, 1907.

policy, and the confidence with which Spiegel customers were treated? [49]

Consistent repetition drove home the concept of corporate size and economic strength and responsibility. Catalogues featured testimonial letters from the company's bankers, attestments to its soundness and reputation. Promotional credit letters, designed to obtain information upon which a new or revised credit evaluation could be based, offered to "exchange references" by providing extracts from bankers' letters of endorsement, giving the company's capital position, and proclaiming the number of accounts carried by the company.[50]

Added depth to the image of size and responsibility was provided by references to "the company's own quarries" in connection with tombstone promotion, and to the output of "our factories" in connection with other merchandise. In fact, of course, the company did not own quarries or factories other than the tailoring facilities for made-to-order garments. But the inference reinforced the image and the moral climate of commerce of that era did not strongly condemn extravagant claims or hyperbole. Nor did the image suffer from the colorful, and equally exaggerated, synthesis of power and economic chivalry provided by many of the company's special promotions. In one version, the merchandise manager was reported to have set the three largest chair manufacturers in the country bidding frenziedly against one another to get a Spiegel contract. When the smoke of the battle had settled "we had entered into a chair agreement that secured these chairs at a lower price, by at least 35 per cent, than [such] chairs . . . ever before cost us." [51] The resultant savings made possible by such use of countervailing power were, of course, passed on to customers.

Swikard even more dramatically employed this theme, not overlooking the opportunity of exploiting antitrust sentiments then prevalent in portraying the company as protector of the weak consumer from the selfish power of "monopoly." During 1911, when Spiegel, May, Stern was liquidating one of its watch and jewelry subsidiaries, Swikard announced that the company was "purchasing" this firm for the purpose of marketing its inventory at bargain prices. This plan, however, bristled with danger since it flaunted the power of the "watch trust." The plan, he confided to his readers, had been conducted in the greatest secrecy, but somehow information had been leaked to "the strongest monopoly on earth"; a rep-

[49] Second Follow-up on the Furniture Catalog, Spiegel, May, Stern Co., Spring, 1913.
[50] Sundry credit letters issued in 1908–1910. Company records, Spiegel, Inc.
[51] Furniture Catalog, Spiegel, May, Stern Co., Fall, 1908.

resentative visited Spiegel's, counseling a change in plan, an abandonment of cutting prices. When management indignantly refused to give currency to the suggested "wisdom" of maintaining monopoly prices at the expense of consumers, "we got a touch of the Trust Methods. If we did not raise our prices . . . the Trust would stop at nothing to blow our business to pieces!" [52]

Swikard's motives with respect to the use of such fictionalized and exaggerated promotional techniques were mixed. Few readers may actually have given credence to such messages, but this he dismissed as unimportant. In that era, and for the small-town residents who were his market, entertainment, recreation, and amusement were scarce. His fanciful embroideries were hardly less overdrawn than were the novels and periodical fiction then in circulation, and he believed that the anecdotal style would be regarded by readers as entertaining.[53] Certainly, it did not detract from the real values of the credit service being provided by the Spiegels, nor from the qualities of the standardized products the company merchandised.

Of a more enduring character was the sober symbolization of power, respectability, and protection created by Swikard in 1911. Arthur Spiegel had earlier contributed a slogan, "We Trust the People – Everywhere," by adding the final word to the original Spiegel House Furnishing Company motto, a phrase rooted in the concept of credit. Swikard conceived the need to personalize the house and achieved this by the illustration of a sandled, white tuniced young giant, bearing the name "Buying Power." The first appearance of the figure posed him standing astride an idealized representation of the company's plant, hands dripping with merchandise while bulging freight trains streamed past his feet.[54] Later catalogue covers and selling pages merged this symbol with the credit theme, and though Arthur Spiegel's name appeared on the editorials, it was "Buying Power" which promised no collectors, no rigid credit rules, no extra prices or interest charges, and who guaranteed that in the event of personal misfortune payment terms would be extended, while expressing a disdain for reclaiming merchandise.[55]

It is worthy of more than a passing note that the concepts originating from the fertile minds of Swikard and Arthur Spiegel, particularly those of the underlying factors of Buying Power and revolv-

[52] Spring Sale Book, Spiegel, May, Stern Co., 1909.

[53] This impression was obtained from interviews with Edward L. Swikard, H. George Meinig, and Modie J. Spiegel.

[54] House Furnishings Catalog, Spiegel, May, Stern Co., Spring, 1911.

[55] House Furnishings Catalog, Spiegel, May, Stern Co., Fall, 1913.

ing credit, have been refurbished and retooled by the company's current management, and with the addition of a few new merchandising techniques, woven into the powerful instrument that has carried the company to new heights in terms of sales and profitability.

Conclusions

The policies and procedures recounted here are indicative of the pattern of managerial choice and action used by Arthur H. Spiegel and his lieutenants from 1907 through 1912. They reflect Spiegel's recognition of the necessity for quick exploitation of the environmental situation through a combination of resources and marketing ideas. By 1913 he had built to a point where he believed he could, by unusually aggressive promotion, greatly increased catalogue and literature circulation and, through a consistent plowing back of earnings, sharply increase volume and gain a significantly larger share of the mail-order markets. The results achieved vindicated his judgment, for sales almost doubled. But in the process the company outran its lines of credit. The resulting strain on the operating organization piled up heavy costs and delayed the servicing of orders. The bankers to whom the company turned for financial assistance so safeguarded their loans as to smother the rate of expansion, and Waldheim's insistence upon distribution of profits restricted the opportunity for expanding out of retained earnings.

Arthur Spiegel became so discouraged by the limitations thus placed upon him that he began to withdraw more and more from active direction of Spiegel, May, Stern. By 1915 he was devoting almost all of his time to the direction of a new motion picture company which he organized in New York. Although he continued to hold the title of president until his death in 1916, at the age of thirty-two, he allowed direction of the company to pass into the hands of his brothers and Waldheim. During the war years the company expanded sales and profits, largely through the process of inflation, but, with Arthur Spiegel's passing, the organization lost much of the drive and purpose which had characterized its earlier years. The niche which intuition, swift business reflexes, and a resolute program of intelligent adaptation to environmental acceptance had provided was retained and even slowly enlarged until 1929, but the opportunity for the company to become a formidable force in American retail merchandising through the development of mail-

order credit selling had been allowed to slip away through timidity, lack of vision, and a devotion to short-run interests.

Survival, of course, is the best single indication of environmental acceptance, and by this criteria the firm and the policies of its leader were successful. But in addition to survival, the company was highly profitable. For the 13 years 1907–1919, the minimum profit rate enjoyed by Spiegal, May, Stern and its subsidiaries was 7.4 per cent of sales, which if below the 9.1 rate earned by Sears, Roebuck was somewhat above that of Montgomery Ward.[56] Despite the rise in the loss rate following 1913–1914, when new customers were added at an unusually rapid rate, over-all credit loss was slightly under 4 per cent for this same interval. Promotional costs averaged about 15 per cent of sales, a figure which reflected some of the inefficiencies of dispersing promotional effort over a variety of limited appeal catalogues, as well as a failure to provide efficient circulation controls.[57] The total sales volume of the combined Spiegel companies grew at about the same rate as Montgomery Ward for these years but lagged substantially behind the other industry leaders, Sears and National Bellas Hess.[58]

Perhaps the most significant Spiegel contribution, however, cannot be reduced to sales volume, cost, or profit terms. Although the mass marketing of automobiles which began in 1914 constituted the greatest single impetus for the popularization of installment buying, there can be little doubt that the institution would have grown to a position of fundamental importance in American merchandising even without automobiles. The role played by Spiegel, May, Stern, and particularly by Arthur Spiegel and Edward L. Swikard, in providing the preliminary education in modern installment credit, in making credit easy to obtain and relatively painless to use, and in helping overcome the ethical and moral barriers to the use of credit for improving living standards must be regarded as being fundamentally important.

[56] Spiegel, Inc., company financial records; for Sears and Ward see Emmet and Jeuck, *Catalogues and Counters*, pp. 172, 294, 301.

[57] Spiegel, Inc., company records.

[58] Emmet and Jeuck, *Catalogues and Counters*, pp. 172, 301; Nystrom, *Economics of Retailing*, p. 179; Barger, *Distributions' Place Since 1869*, p. 148; Spiegel, Inc., company records.

By Richard W. Griffin
EDITOR, COTTON HISTORY REVIEW

An Origin of The New South: The South Carolina Homespun Company, 1808-1815*

The effort to establish a cotton factory in South Carolina in 1808 was aborted by inexperience, lack of capital, and unfavorable economic circumstance, but the episode provides a few more bits of evidence to add to the fragmentary history of early textile manufacturing in America.

The idea of a cotton factory in South Carolina was not novel in 1808. Nineteen years before, Hugh Templeton, an English machinist, had settled in South Carolina and had been given by the legislature a patent on and exclusive monopoly for the manufacture of cotton spinning and carding machines in the state.[1] The following year, 1790, Templeton, with the support of several planters in the vicinity of Stateburg, built a spinning mill employing English-type machinery "in the high hills of Santee."[2] There were other small-scale attempts at cotton manufacture in South Carolina in the years between 1790 and 1807. The legislature of South Carolina received four petitions in this period requesting financial assistance to prospective cotton manufacturers.[3]

The constant crises involving commercial disputes with France and Britain during the Napoleonic Wars stimulated a growing concern for the economic independence of the United States through enlarged manufacturing activity. With the obvious intent of creating some local interest in this important subject, the Charleston City *Gazette* carried in its columns reports of the organization of manufacturing societies and cotton factories from all states.

A result of the *Gazette*'s campaign was the project of a Dr. Leseigneur, in 1807, to establish a cotton factory. For his mill he

* Work on this article was made possible through grants from The American Philosophical Society and The Social Science Research Council.

[1] Legislative Papers – Public Improvements – Manufactures, MSS. Petition of Hugh Templeton, Feb. 28, 1789, South Carolina Archives, Columbia, S.C. Cited hereinafter as L.P., S.C.A.

[2] *The* (Annapolis) *Maryland Gazette*, July 22, 1790.

[3] L.P., S.C.A., MSS., Dec. 1, 1792, Dec. 2, 1794, Nov. 20, 1795, and Dec. 7, 1801.

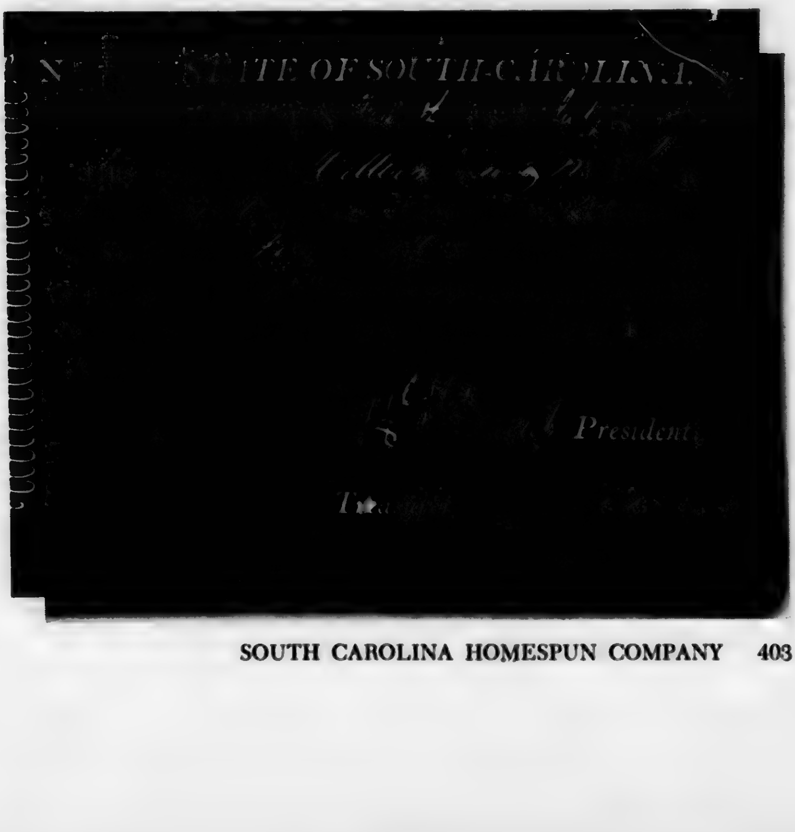
purchased a building which was constructed in 1775 for a sugar refinery, and which had been used during most of the intervening years as a "House of Correction or Work-House." The machinery for his mill was ordered from England but was lost when the ship carrying it was sunk in a storm and the project was then abandoned.[4]

The Embargo which came the following year served to renew interest in Charleston for a cotton factory. The *City Gazette* reprinted an article from Washington, D.C., which pointed out that the time had arrived for Americans to turn to manufactures. The article said that [5]

> The injustice and oppression of foreign powers have given birth to the stimulus, and our countrymen, with a spirit that does them honor, are entering with enthusiasm into these great manufactures, that have become doubly profitable from the troubled situation of our foreign intercourse. There is scarcely a town to Westward that has not caught the patriotic flame, and whose citizens have not already opened their purses with a liberality worthy of the object. In many of the great commercial towns a large portion of the capital, usually employed in trade, is already engaged in erecting and carrying on cotton manufactures; and we have good authority for saying that the profits . . . are equal to those of trade.

[4] James H. Taylor, "Manufactures in South Carolina," *DeBow's Review*, vol. VIII (June, 1850), p. 24.

[5] *The City Gazette and Daily Advertiser* (Charleston, S.C.), June 1, 1808, citing the *National Intelligencer* (Washington, D.C.), May 20, 1808.



In the summer of 1808, John Lewis Edward Whitridge Shecut, eminent physician and botanist, under the pseudonym "Tuches," wrote a series of letters to the Charleston *City Gazette* urging residents to join together and launch a cotton manufactory. He proposed that a company be established – "The Carolina Homespun Company" – with a capital of $25,000. The aims of this company were to erect a factory, install machinery, and to card, spin and weave wool and cotton into stripes, checks, shirting, sheeting, dimity, fustian, jeans, twillettes, and cashmere; to give employment to the indigent; and to provide a home supply for these items "which are in general in very great demand." The public was informed that steps were under way to make the necessary plans, which would be submitted to a public meeting on August 1, 1808.[6]

The "Fair Daughters of Carolina" were solicited for their support in making this project a success. Separate subscription lists were to be made available for them, and it was predicted that "there is not the smallest doubt, but such an opportunity will be readily embraced by our Fair Countrywomen." [7] In the same issue with this announcement another was published calling together the planning committee to consider the advisability of carrying through the project.[8]

This committee, appointed at a meeting of leading Charlestonians, included John Drayton, John Ward, Nathaniel Russell, Adam Gilcrest, John Johnson, Jr., Peter Freneau, John Blake, Jonathan Lucus, Jr., O'Brien Smith, E. L. Horry, S. Robertson, J. L. E. W. Shecut, Simon Magwood, Thomas Lee, Micah Jenkins, Robert Howard, and David Ramsey. At this meeting, held at the Exchange, they divided into two subcommittees to investigate specific problems and to collect statistics as to cost, profits, and products.[9]

On the first of August the long-heralded public meeting was held, with Dr. David Ramsey as presiding officer. The select committee recommended to the group the organization of "The South Carolina Homespun Company" with a capital of $150,000 divided into 15,000 shares, with 1,000 shares being reserved for the state. Those who took the $10.00 shares were required to pay $2.00 down and the balance in equal installments at intervals of two months, beginning with August 15, 1808. The provision was made that any subscriber

[6] Tuches, "Spirit of the Times," Charleston *City Gazette*, July 8, 1808; *The Republican; And Savannah* [Ga.] *Evening Ledger*, July 12, 1808.

[7] Penelope, "To The Fair Daughters of Carolina," Charleston *City Gazette*, July 22, 1808.

[8] *Ibid.*

[9] *The Republican; And Savannah Evening Ledger*, July 26, 1808.

who failed to pay subsequent installments after 30 days' notice would forfeit all previous amounts.

The subscription books were to be opened August 15 and 16 under the control of specified commissioners – who were to call a meeting of the stockholders as soon as the capital had been subscribed. The members of the meeting then approved an address to be published in order to stimulate greater public support for the enterprise. This statement explained to the citizens of South Carolina the purposes of the company and the causes for its organization. It was reported that after a careful investigation of the subject the decision was made to buy land and to build a model factory which "Will make this state independent of foreign nations, for the article of blankets, negrocloth and other common goods, which although not among the elegancies, are yet among the necessities." The Homespun Factory was to benefit all Carolinians: it would create a market for yarn spun by wheel by countrywomen; it would provide a market for stained and inferior cottons; and it would be patriotic as well as profitable for people outside of Charleston to buy stock of the company.[10]

A correspondent of the *Gazette* urged the planters and farmers to give up the "superfluities" of Europe and buy homespun for their summer wear and northern broadcloth for the winter. He pointed out that it was only realistic to buy from those who would purchase their cotton and wool at home. Thomas Jefferson, who had appeared at the Fourth of July celebration in American-made cloth, was held up as an example to follow. Citizens were urged to "step forward with alacrity and lend a helping hand to the 'Carolina Homespun Company' . . . altho' not first, yet . . . be not last, in aiding an establishment that . . . will place us independent of Britain." [11]

Despite the efforts to stimulate support for the company, its stock sold slowly; it was not a time when there was much surplus capital in either mercantile or agricultural hands, and a meeting of the stockholders voted to keep the books open until the entire issue was taken. It appears that at this time Dr. Leseigneur offered to sell the company his proposed factory building, but the meeting delayed any action on this proposal until more capital was available.[12]

Peter Freneau, editor of the *City Gazette*, published in September a series of letters from a stockholder of the Homespun Company. The writer, undoubtedly John L. E. W. Shecut, wrote to point out

[10] *Ibid.*, Aug. 6, 1808; *City Gazette*, Aug. 2, 1808. The commissioners were John Drayton, Robert Howard, William Lee, John Stony, Daniel Stevens, John Blake, and John Ward.

[11] *City Gazette*, Aug. 9, 1808.

[12] *The Republican* (Savannah, Ga.), Aug. 27, 1808.

that the efforts to organize the company were faulty. He said that the capital was much too large and that the failure to secure this amount in August, combined with overstressing the patriotic rather than the practical aspects of the venture, had caused a decline in public enthusiasm. His object was to prove that the company would be successful and was the most profitable investment that could be made in manufactures. He went on to show that on an investment of $30,000 the stockholders would realize nearly 50 per cent annually on their stock.[13]

According to Shecut, the vacillation of the organizer was inexcusable, and was unnecessarily threatening the project's success. He gave estimates showing that the company could manufacture muslin and make $8.47½ on each pound of cotton fabricated and said that the profits would be correspondingly high even though the plan was to make coarse goods. In the matter of a plant he cited figures showing that the machinery for a 500-spindle-factory could be purchased in Philadelphia for $2,800. Therefore, it would be sufficient to start out on a small scale and with only $30,000, using the time that would be required to raise $150,000 to get the company in operation.[14]

In his last letter Shecut cited figures from the Charleston Carpenter's Society estimating that a building could be constructed for the Homespun Factory for about $9,000. Other estimates for building and machinery went up to nearly $25,000. Power for the factory was to be provided by a water wheel operated by the ebb and flow of the tides. Shecut opposed the plan, suggesting that the cost of banking the marsh to create this power would be equal to that of securing a steam engine.

He took the best of the various estimates and showed that for the building the cost be $9,000; for a steam engine or banking for the tidal power, $3,600; for machinery (1,000 spindles and 40 clock looms), $11,000; and for a site, $5,000, a total of a little less than $28,600. This, he pointed out, would leave a balance of about $1,500 for working capital. The assets of the company by September 13 were represented by 2,173 shares of stock worth $21,730, upon which installments had been paid of $4,356. Shecut recommended that half the available cash be applied to contracting for the building and that the balance be used for ordering machinery; that a lot be secured on credit and that the workmen be paid when more cash was available. The second installment, which was due in November,

[13] *City Gazette*, Sept. 3, 1808.
[14] *Ibid.*, Sept. 9, 1808.

and those following would soon liquidate the company's indebtedness and the factory would be in operation. In conclusion he urged the stockholders at their next meeting to vote for the immediate organization of the company.[15]

The plea was sufficient, for the stockholders elected officers and the construction of the factory was begun. The energy shown by John Shecut in promotion of the concern led to his election as president to succeed David Ramsey. The new president immediately called upon the stockholders to pay their next installment to Major Robert Howard, the company's treasurer.[16]

On October 24, 1808, the ceremony of laying the cornerstone of the Homespun Factory was held, and William Loughton Smith, former member of Congress and Minister to Portugal, made the address. As would be expected on such an occasion, the 5,000 auditors were treated to fervid oratory and purple prose. In concluding his speech, Smith said that "when our distinguished biographers, the faithful recorders of the illustrious deeds of contemporaneous patriots, shall transmit with applause to future generations the names of these Carolinians, who have deserved well of their country, he will consecrate a copious and splendid page to the memory of the founders of the HOMESPUN FACTORY, and wreathe a civic crown for the patriotic SHECUT." His final accolade was that "you laid the cornerstone of that temple, which was to perpetuate our commercial rights – your great and glorious work is now consummated – now may your children shout and rejoice, for *this day* their independence is complete." [17]

Dr. David Ramsey a few days later sent Smith's speech and a description of the celebration to Dr. John C. Lettsom in London, informing him that the project was very popular and that Governor Pinckney had agreed to recommend it to the legislature for state aid. Ramsey predicted that "many factories will soon be established over this State, and indeed all the States. This business is entered on not from passion but a desire to promote our own interests." [18]

Within a short time after the cornerstone laying, Dr. John Shecut, in the name of the Board of Directors, requested an act of incorporation from the Legislature. This was the first act of this kind ever passed by the South Carolina legislature and is dated December

[15] *Ibid.*, Sept. 14, 1808.

[16] *Ibid.*, Oct. 13, 1808.

[17] *National Intelligencer* (Washington, D.C.), Nov. 8, 1808. For the complete text of this address see *THE COTTON HISTORY REVIEW*, vol. I (July, 1960), pp. 138–142.

[18] David Ramsey to Dr. Lettsom, founder of the London Medical Society, Oct. 29, 1808, MSS., South Caroliniana Library, University of South Carolina, Columbia.

15, 1808.[19] The act of the legislature pointed out that this was a good and necessary project which would encourage both industry and agriculture. The act also included special dispensation to the city of Charleston to lease or sell to the company a marsh "at the west end of Broad-street." This was to provide a suitable location for shipping as well as to enable the company to employ the tidal power as proposed.[20]

The officers of the Homespun Company were able to inform the stockholders in the spring of 1809 that the preparations for the factory were progressing and that an agent of the company was in Rhode Island securing the necessary machinery. The directors called for the payment of the next installment on stock subscriptions in order to cover these expenditures.[21]

The bright future of the company began to be somewhat dimmed by the repeal of the Embargo in March of 1809. The opinion of the public had been far from unanimous in its approval of the project during the trying days of the Embargo, but with its repeal, money could once more flow freely into the traditional activities of the city – while the necessity for a cotton factory seemed less apparent.

The trials of the South Carolina Homespun Company were many; the major problem being the lack of money. This problem was further complicated by a series of unforeseen disasters. Instead of taking advantage of the offer of Leseigneur to sell his factory building, the directors decided to build a model factory building and invested almost $12,000 in buying a lot and building the factory near the marsh which was to supply their motive power. After trying to have the necessary machinery produced in South Carolina, they were forced to buy it in Rhode Island, spending $6,000 there for cards and spinning frames. The company then brought skilled workers from Rhode Island to Charleston to start the factory and to train native labor in the operation of the machines.[22]

The plan of using tidal power was blocked by disputed claims to the marsh, which the city claimed had been awarded to it by the legislature at the time the city was incorporated. The company was thereby prevented from banking the area and providing the channel necessary for the water wheel. This dilemma forced the directors, anxious to begin operations, to adopt horse power as a

[19] Request for an Act of Incorporation, 1808, MSS. Legislative Papers, Public Improvements, Manufactures, South Carolina Archives, Columbia.

[20] *Acts of South Carolina*, 1808, pp. 56–58; the directors named in the act were J. L. E. W. Shecut, Charles B. Cochran, John Johnson, Jr., Joseph Kirkland, Isaac Neufville, John Horlbeck, Jr., Robert Howard, Jonathan Lucus, Jr., and Thomas Bennett, Jr.

[21] *Charleston* (S.C.) *Courier*, March 11, 1809.

[22] *Ibid.*, Sept. 25, 1809; *City Gazette*, Aug. 18, 1810.

temporary expedient. With this not entirely satisfactory arrangement the machinery was placed in operation. In the spring, President Shecut wove a piece of Negro cloth before several ladies and gentlemen, who "were highly pleased with the performance." [23] With the subsequent exhibition of the company's machinery in operation, Dr. Shecut took the opportunity to point out to the public the successful operations of the factory and its extensive facilities as another reason for the purchase of more stock in the concern. The immediate aim of the officers was to obtain the necessary funds to purchase a steam engine or to complete the tidal power as well as to "allow a liberal salary to an approved president," and other necessary personnel. With the addition of machinery and satisfactory power, the officers pledged that the factory "will make them an ample and grateful return, for the support they may now bestow upon it." For the benefit of those desiring to purchase stock, the directors and their addresses were given to the public.[24]

On October 24, 1809, the stockholders met to celebrate the first anniversary of the company's organization. Dr. Shecut, the president, made the address at the completed factory. He reviewed the motives of the founders – stemming from the Chesapeake-Leopard Affair through the Embargo – which proved the need of manufactures in the state. South Carolinians were taking advantage of the stresses of the time to emulate Great Britain in establishing a factory, which would not only bring greater independence to them but would give adequate employment to the many skilled manufacturers who were fleeing the depression in England and seeking liberty in the New World.

Dr. John Shecut spoke of the taunts and scoffs of many influential citizens who had refused to believe that such a plant could be built in Charleston, yet the factory stood and, he said, "may we not safely predict that the one we have this day assembled to contemplate, will at least prove itself a school of instruction, from which may be obtained all the information pertaining to machinery, and a competent knowledge of the preparation and fabrication of yarn and cloth of any description."

He praised the directors for their unselfish devotion and perseverance in establishing the factory in the face of inexperience and

[23] *National Intelligencer* (Washington, D.C.), April 10, 1809.

[24] *Charleston* (S.C.) *Courier*, Sept. 25, 1809; the directors were J. L. E. W. Shecut, 216 King Street in mornings, at the factory in afternoons; C. B. Cochran, State Treasury; Robert Howard, General Tax Office; Dr. J. Kirkland, Charleston Dispensary; Jonathan Lucus, Jr., Cannonsborough; John Johnson, Jr., Wragsborough and at the factory; Thomas Bennett, Jr., John Horlbeck, Moore Street; Isaac Neufville, National Bank.

carping criticism. He reported that the company was suffering from the flood of cheap British goods which poured into the nation after the Embargo's repeal and brought the price of goods to a point far below the calculations of the company's officers. The final act of Dr. Shecut was to present to the stockholders the books of the management and display the income and the expenditures of the first year.[25]

The annual message of the Governor called upon the legislature to encourage all manufactures from the simple processes of ginning and carding to the more advanced activities of the Homespun Company. He said, "let the hand of power and of government be seen – let the voice and purse of the public be used for the public service." [26] The legislature was quickly given an opportunity to follow this advice when President John Johnson of the Homespun Company petitioned for a loan of $5,000 from the state to enable the company to secure adequate motive power for the completed factory.[27] The legislature, however, rejected this petition.[28]

The Board of Directors were discouraged by the outcome of their appeal to the state. The inadequate power and the excessive cost of operations led them finally to rent the factory to Dr. John Shecut, until the fall meeting of the stockholders. It was Shecut's desire to prove the practicability of the concern that led him to take it over. He announced to the public that "his *sole object* is to obtain an opportunity of making a fair and candid experiment (upon such principles as he has uniformly advocated) of the success of this institution." He assumed the entire risk and expense of the factory and called upon the people of Charleston to buy the mill's products for the benefit of the founders and the entire community.[29]

The months immediately preceding Dr. Shecut's renting of the factory were marked by dispute among the directors and disagreement about the proper solution of the company's difficulties. John Johnson, Jr., resigned the presidency of the firm, and was replaced by Bartholomew Carroll. Then Dr. Kirkland and Captain John Geddes gave up their directorships and had to be replaced at a special meeting of the stockholders. It was in the face of this mounting confusion and divided councils that Dr. Shecut resumed the presidency and full responsibility for the South Carolina Home-

[25] *The Strength of the People* (Charleston, S.C.), Oct. 31, 1809.
[26] *Ibid.*, Dec. 7, 1809.
[27] Memorials and Petitions – Legislative Papers – Public Improvements – Manufactures, Petition of John Johnson, Jr., MSS., South Carolina Archives, Columbia.
[28] D. D. Wallace, *The History of South Carolina* (New York, 1934), vol. II, p. 408.
[29] *The Strength of the People*, May 17, 1810.

spun Company.[30] There was no doubt of his enthusiasm for the enterprise, for he named a new-born daughter Carolina Homespun.[31]

There were many dissatisfied stockholders, however, and several of the directors advised that the company's land and building be liquidated and the money applied to a second attempt in the suburbs with an inexpensive building and slave laborers. In opposition to this plan Dr. John Shecut wrote a series of six letters addressed to the stockholders reviewing the history of the company's efforts to that time and suggesting a less drastic remedy. As he pointed out, the problems had already been encountered and, once they were understood, the company could resume the activities with greater chances for success.

He enumerated the oft-mentioned difficulty of insufficient capital; although the company charter had provided for a $60,000 capital, less than half of this amount had been collected, namely, $27,000. In anticipation of obtaining the entire amount the directors had proceeded to expend a large part of the income for buildings and lot ($12,000), and an additional sum for machinery ($6,000). The original installment plus those which came due in 1808 and early 1809 had been exhausted by these expenditures. Then, with interest lagging, it became more difficult to collect subsequent amounts to cover the cost of operations. The unexpected and still, in 1810, unsolved problem of the tidal water power had caused further delay and expense. These difficulties were further complicated by unsatisfactory "conduct of several of their principal workmen." Despite the best of motives, the division among the directors, all inexperienced in this type of operations, had served as further hindrance to the successful operation of the concern.[32]

Once the factory was operating, the officers found that the coarse Negro cloth being produced cost the company 37½ cents a yard to produce at a time when the market price of such material was only 30 cents. This added problem caused a division among the directors — one group favoring a removal from the city and disposal of the existing factory. Dr. Shecut agreed that it might have been preferable to have started with a coarse wooden building, purchasing slave hands to perform the work, instead of incurring the heavy expense of a city lot and a well-constructed building. Such a plan, he pointed out, would have been preferable at the beginning, but

[30] *City Gazette*, March 7, 29, 1810.
[31] Wallace, *History of South Carolina*, vol. II, p. 408.
[32] Tuches, "To the Stockholders of the South Carolina Homespun Company," *City Gazette*, Aug. 12, 1810.

selling the existing facilities would not provide sufficient money to make the changes proposed. He urged the stockholders to consider well the dangers of a new policy before the fateful decision was made.[33]

The only possible conclusion was that a forced sale be held to dispose of valuable property at a "MONSTROUS SACRIFICE." The building was superior and especially designed for a manufactory, the machinery for propelling the works was installed, and all facilities were "good, permanent and increasing property to the company; in short, to them they are invaluable." The problem of cost was said to be directly traceable to the use of sea island cotton for the manufacture of coarse goods.[34]

Thus, said Dr. Shecut, with certain changes in the operation of the factory, not only would it cease to lose money, but it would actually produce profits to be divided among the shareholders. In order to assure greater returns and to put the company on a firm foundation, he urged the stockholders to raise an additional $6,000, which would provide the factory with necessary improvements. These included 15 slave boys for $4,800; four mules, if the marsh could not be obtained, for $400; a carding machine for $200; and $600 for operating contingencies. The advantages of these additions would – based on the expenses of operation for the previous year – produce a balance for dividends of $3,164, or nearly 10 per cent on the investment.

The total expenses of the factory were $3,526 in its first year of operation: $1,630 paid to a superintendent; $1,170 for 9,000 pounds of cotton; $576 paid to 8 boys working in the mill; $250 for dyeing 2,000 pounds of cotton. Shecut estimated that by employing 8 additional boys the cloth production of the mill could be increased to 24,000 yards with the fly-shuttle looms. The product of the following years should, he said, be 8,000 yards of plain white dowels which would sell at 25 cents per yard and bring in $2,000; 8,000 yards of colored cloth to sell at 37½ cents per yard and produce $3,000; and 8,000 yards of colored cloth twilled and figured to sell for 50 cents a yard and produce $4,000 – a total income of $9,000. Subtracting from this total the year's estimated expenses of $3,525 and interest on the capital of $2,310 would leave a balance in the company's favor of $3,165. Dr. Shecut's recommendation was that the balance should be applied to adding more machinery and then be divided annually among the stockholders.[35] The company was at

[33] *Ibid.*, Aug. 21, 1810.
[34] *Ibid.*, Aug. 25, 1810.
[35] *Ibid.*, Sept. 6, 1810.

that time running 250 spindles, and let out its yarns to weavers in the neighborhood.[36]

Dr. Shecut in his final address to the stockholders urged them to come forward and contribute the small amount necessary to consummate their original design and to make the operation profitable. He exhorted them to write to their legislators to obtain aid from the state in the form of a lottery to raise the needed sums as an added encouragement to the Charleston Factory.[37] The enduring faith of Dr. Shecut was rewarded by the stockholders' defeat of the proposal to sell the factory, and the management of the concern devolved once more upon him as president.[38]

The following November Shecut and the directors appealed to the legislature for the right to hold a lottery to raise $10,000.[39] The legislature passed the necessary act enabling the company to raise through one or more lotteries "a sum of money which would greatly aid the said company in the completion of their views." The act limited the amount to be raised to $18,000.[40]

This effort evidently failed to raise the needed capital and the company continued a lingering existence. Had it survived into the war years, it would have enjoyed greater profits and, perhaps, success. It is evident that the company ceased operations before the war began, for in 1812 the legislature of South Carolina approved a petition from a group of residents from Greenville district requesting a loan of $10,000 to aid in the establishment of a cotton factory. The committee reported that "therefore, impressed with the importance of encouraging domestic manufactories, and believing that the small loan solicited may be extended to the petitioners without inconvenience or loss to the state, recommend that the prayer . . . be granted."[41] Had the long-completed South Carolina Homespun Company's mill still been in operation, it doubtless would have been given similar assistance. The property of the company was finally disposed of in 1815 at a loss of most of the original investment.[42]

The efforts at Charleston clearly mark the beginning of a movement for the establishment of manufactures in the South which was

[36] *Ibid.*, May 21, 1810; March 7, 1810.
[37] *Ibid.*, Sept. 8, 1810.
[38] *Ibid.*, Sept 6, 1810.
[39] Petition for a lottery by J. L. E. W. Shecut, Nov. 28, 1810, Legislative Papers – Public Improvements – Manufactures, MSS., South Carolina Archives, Columbia. The other petitioners were John Spring, Benjamin A. Markley, Joseph Otis, Jr., and Henry Rose.
[40] *Laws of South Carolina, 1810*, pp. 36–37.
[41] *Ibid., 1812*, pp. 30, 81–82.
[42] E. M. Lander, Jr., "The South Carolina Textile Industry Before 1845," *The Proceedings of the South Carolina Historical Association, 1951*, pp. 20–21, citing J. L. E. W. Shecut, *Medical and Philosophical Essays* (Charleston, 1819), pp. 12, 26.

never subsequently abandoned. The example led to the establishment of other such enterprises in South Carolina and in neighboring states which survived and laid the foundations for a steady industrial growth decade after decade. John Lewis Edward Whitridge Shecut well earned the "civic Crown" proposed on that momentous October 24, 1808. For his pioneering spirit and unflagging faith he deserved more recognition from his native state and section. In this instance John Shecut, the physician and botanist, and David Ramsey, historian, preceded by over 70 years Henry Grady's call to the New South.

Newcomen Awards in Business History

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Two Newcomen Awards in Business History are presented annually for articles published in the *Business History Review*. The *First Prize*, of $250, is awarded the article judged, according to the rules outlined below, to be the best of the year. The *Special Award*, of $100, is for the best article submitted by an author not more than 35 years of age and who has not published a book.

Prize articles are selected by a panel of judges composed of a representative of The Newcomen Society and selected members of the Advisory Board of the *Business History Review*. No member of the Advisory Board or editorial staff shall be eligible for a prize, and articles so authored will not be considered in the judging. Authors eligible for the *Special Award* shall also be eligible for the *First Prize*, but in no event shall both prizes be awarded for the same article. The Advisory Board reserves the right to withhold the *Special Award* in the event that eligible articles do not, in the Board's judgment, merit prize consideration. The awards program is administered by the editorial offices of the magazine.

Criteria for selection include: originality, value, breadth, and interest of contribution, quality of research materials and methods, and quality of presentation.

IS HISTORY BUNK OR GOOD BUSINESS? *

RT. REV. MSGR. JAMES P. SHANNON
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It was once remarked by G. K. Chesterton that "self-made men frequently betray the defects of their creator." It would appear from the study of our national history that this criticism might often and with justice be leveled against the American businessman as well as against the academic person — the intellectual. Each has demonstrated a traditional hostility to the other and each has been adamant for decades in his unwillingness to appreciate the merits of the other and the reciprocal advantages which mutual friendship might bring to them.

Henry Ford's now famous remark, that "History is more or less bunk," is often cited by businessmen as a credo they can accept and by professors of history as a classical example of monumental ignorance. In a sense each of these critical judgments is correct; and in a sense each of them is patently false. The contempt of written history shown by Mr. Ford when he testified in court during his libel suit against the *Chicago Tribune* in 1919 might reasonably be expected from a businessman who knew and respected the gigantic odds against which John D. Rockefeller, Andrew Carnegie, and James J. Hill had attained fame and fortune but who had seen these men ridiculed, belittled, and attacked by the muckraking biographies of Ida Tarbell and Gustavus Myers. Ford could not reconcile his own solid admiration of these men with the written records of authors who labeled them "Robber Barons," "Moguls," and plunder-

* An address delivered to The Forest History Society and Minnesota State Historical Society on June 9, 1961, and printed in the fall issue of *Forest History*. Reproduced here with the kind permission of Elwood R. Maunder, Director, Forest History Society, Inc.

ers of society. If this was history, Ford's own personal experience told him it was bunk. His error was not in calling *it* bunk. His error was in calling *it* history.

Conversely the lofty attitude which many scholars, including historians, often took toward business affairs and business leaders rested on the questionable premise that the work of a good historian is to record the rise and fall of empires, the overthrow of monarchies, and the negotiation of treaties. It was not the function of a scholar to write the story of a business or a corporation. Consequently when men of Henry Ford's unquestionable stature in American life made outrageous statements about history and books and the men who write them, scholars felt a righteous indignation and reiterated their deep convictions that business is by definition crooked and businessmen mere mechanics of financial manipulation, unworthy of space in any serious study of the sweep of human history.

In recent years, however, scholars and merchants have had reason to take a second look at their traditional attitudes of hostility and to realize that enlightened businessmen, not scoundrels, and good historians, not muck-rakers, have a great deal in common and could, by mutual effort, be of immense help to each other.

Indeed men in other lands have known this for a long time. A hundred years ago Karl Marx realized and reminded his followers that the success of Communism would depend to a great extent on its ability to keep the intellectuals, the scholars, and the writers in close touch with the leaders in business, labor, agriculture, and government. A prime purpose of the vast Communist-Front movement in 1935 in this country was to bridge the gap between the scholars and the working classes.

If history is the record of man's achievements, there is no defensible reason why an arbitrary limitation of its scope should exclude the story of man's effort to extract the goods of the earth, shape them to his needs, and distribute them to his fellows. Indeed, this chain of commerce, if properly appreciated, is an essential skein in any tapestry of history. Historians in our day have become increasingly aware of the fact that the style of writing history during the Roman Empire or even during the reign of Queen Victoria does not provide an adequate chronicle of the achievements of the Pony Express, the Mormon migration, the western land rush, the Panic of 1929, or the story of the N.R.A.

These stories require a kind of writing which uses the detailed records of daily life in America. It requires a sharp focus, precise attention to an enormous amount of detail, and that quality of good writing which Henry James called the "density of specification." The fact that our age now sees the publication each year of several new studies in business history which deserve the acclaim of scholars and the praise of business leaders is an indication of a new maturity in our capitalistic system and even a new quality of sophistication in academic circles.

If capitalism is as good as we say it is, then it deserves to have its story told and its contributions to human life and happiness publicized. If its achievements are worthy, not only of public examination but of public praise, they should be made known to as wide an audience as possible. Business leaders of an earlier day could hardly be criticized by

fair-minded scholars for holding back their records or refusing permission for writers to examine these records. A generation of writers who sought spectacular scandals in finance and business had frightened the custodians of commercial records and had injured the good name of reputable scholars.

There are, of course, some sensationalists still at large on the American scene — writers who are anxious to whip together a paperback potboiler made up of a tissue of unreliable gossip from questionable sources. Their objective is not the pursuit of truth nor do they strive to write a balanced and fair account of historical development. They seek only a quick publishing success and a fast buck. Such quick-shuffle artists we shall always have with us. In a free society we cannot control them. We can only grind our teeth and pray for them while the rest of us who respect the craft of the historian and the lofty ideals of his profession seek to refine our research, tighten our prose style, and publish works of sound scholarly merit.

I trust that by now my implication is clear — that there is no objective reason why any hostility or suspicion should exist between enlightened business leaders and competent historians. And if this is true, it is true because recent decades have given us in America generations of business leaders who know the facts about their corporate structure, the origin of their industry, and the contribution their efforts have made to advance the good life in America, and a new generation of historians who recognize that even classical, military, and political history cannot be written accurately without a detailed knowledge of the records, the facts, the journals of commerce and manufacturing. As a result of this new sense of mutual respect and the desire for cooperation there have appeared in recent years such exemplary business studies as Allan Nevins' life of Henry Ford, Paul H. Giddens' history of the Standard Oil Company, the history of Macy's department store, the life of John Jacob Astor, the life of Jay Cooke, and in our own city we are soon to read the history of the Great Northern Railroad by Ralph and Muriel Hidy.

One cannot expect that the secret records of the Mafia, Murder Incorporated, the Ku Klux Klan, or the Appalachin Syndicate would be thrown open to scholars, regardless of their motives. However, in legitimate business ventures there is a growing awareness that a knowledge of one's corporate or industrial past might be a considerable advantage for future planning. There is also an obvious pride among American businessmen in the significance of their efforts to advance the welfare of mankind by manufacturing, commerce, and distribution. This pride of achievement, especially when capitalism and the free enterprise system are under heavy fire from Communist advocates, prompts business leaders to want a platform or a publication to tell the true story of their enormous contribution to the American standard of living and to the welfare of other nations as well. These men are not ashamed of their story or of their records. They are proud of them and anxious to tell a wider and wider audience the true facts of business history. And, fortunately, this great and legitimate pride has grown up in an era when responsible historians have lived down the tawdry reputation of the muckrakers and have won the respect and the confidence of the men who

direct American business affairs and guard the records of American finance and commerce.

Undoubtedly you have already begun to suspect that there is some ulterior motive lurking behind the pleasantries of our luncheon, our visit, and our displays today. Our purpose is simply stated. We who are professionally engaged in the writing of history must always seek to enlarge and perfect our recorded sources of historical data. With our present wide horizons almost no aspect of human life escapes our scrutiny. We have only recently begun to appreciate the enormous historical wealth contained in the business records of countless American companies and industries. We are anxious to find, clean, catalogue, and study such records as part of our continuing responsibility to discover and to describe the remarkable and admirable achievements of our fellow men.

You can be of service in this continuing search. You now know something of the Forest History Society and what it does. You know that it is a nonprofit scholarly Society dedicated to finding and preserving the records, both written and oral, of the forests and forest products of our vast nation. The work of this Society should be of interest and of value to a variety of persons engaged in forestry, lumbering, conservation, and in operating the economy of the nation. We can be very grateful that a new era of respect and understanding between the writers of history and business leaders has put down the old myth that all "History is Bunk." In time past, bunk has on occasion masqueraded as history. But in our day the cheap approximation is recognized as a poor substitute for the real thing and many business leaders are taking positive steps to see that the identity of the real thing is protected in well-preserved archives and published for the education of the public by responsible scholars.

The contemporary Spanish philosopher Jose Ortega Y Gassett has defined an educated man as one "who *understands* and *appreciates* the cultural tradition which produced him and who is willing to spend himself in his own lifetime in order that that valuable heritage might be preserved, protected, perfected, and extended for the benefit of future generations." It is our fond hope that this Society, with its dedicated professional staff, aided by your interest, your cooperation, and your support, will be able to further this kind of admirable awareness of our origins, our present position, and our future possibilities.

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SOURCES FOR RESEARCH IN FOREST HISTORY: THE UNIVERSITY OF WASHINGTON MANUSCRIPTS COLLECTION

RICHARD C. BERNER

Curator of Manuscripts
at University of Washington Library

The forest industries provided the foundation upon which the economy of western Washington was built, and these industries continue to play a critical part in that economy. The Boeing Company, the largest single firm in the state for example, was financed from capital earned by William Boeing in the lumber industry.

A century (1857–1957) of the Puget Sound region's forest industries is represented in the University of Washington Library's Manuscripts Collection, the earliest papers representing those of the Washington Mill Company [1] (Seabeck), while the Stimson Mill Company (Seattle) papers carry manuscript documentation to 1957.

The kinds of operations represented range from the somewhat comical barter-type gymnastics of the Yesler, Denny Company (Seattle) to the huge, wide-ranging activities of the Port Blakely Mill Company [2] (Bainbridge Island) and the Puget Mill Company (Port Gamble and Port Ludlow). According to estimates of Edwin G. Ames, a former Northwest manager of the latter firm, these were two of the world's largest mills operating in the late nineteenth and early twentieth centuries.

There are three main categories of businesses represented if the manuscripts are described in terms which stress the regional origins of each firm: one entirely indigenous to the Puget Sound region; two companies established as vertical complements of lumber companies in the San Francisco Bay region; and three which migrated, one from Maine, the others from the Midwest.

1. Indigenous to the Puget Sound Region.

Yesler, Denny and Company papers, 1861–1876. (Henry Yesler built the first sawmill in Seattle, 1853.) Includes 41 letters from Yesler to his partner, Captain George Plummer in San Francisco, and two from Plummer to Yesler; 24 merchandise lists; lottery tickets offering his mill as grand prize (1876). Gift of the Bagley-Mercer Company, 1959.

Papers of the Yesler, Denny Company, alone of the papers in the collection, represent the activities of a lumbering enterprise which was indigenous to the region. Henry L. Yesler nurtured his steam sawmill from the time he helped found Seattle in 1853. Its pulse was controlled by the

[1] For a fuller description of the Washington Mill Company papers see Judith M. Johnson, "Source Materials for Pacific Northwest History: The Washington Mill Company Papers," in *Pacific Northwest Quarterly* (July, 1960), pp. 136–138. Edmond S. Meany, Jr., made extensive use of portions of these papers in researching his "History of the Lumber Industry in the Pacific Northwest to 1917" (Ph.D. thesis, Harvard University, 1936).

[2] For a brief description of the Port Blakely Mill Company papers see Richard C. Berner, "Source Materials for Pacific Northwest History: The Port Blakely Mill Company Papers," in *Pacific Northwest Quarterly* (April, 1958), pp. 82–83. An unpublished historical sketch of the company by Mr. Berner, and an inventory record and guide to the papers may be borrowed.

local market, the absence of a broadly based commercial affiliation, and the characteristic dearth of capital. There were links with the San Francisco Bay region, but these mainly existed to supply provisions and equipment for Yesler and Denny's general store. Logs and lumber were bartered primarily for subsistence items vital to the slow-paced life of the region. A grist mill stuttered along as an allied enterprise. Yesler's letters abound with the expostulations of a shoestring operator in a village on Puget Sound to his uncertain partner in the metropolis of the Pacific Coast (San Francisco). In this small collection there is much of value to the historian, the humorist and the anecdotist.

2. Vertical complements of San Francisco companies.

Papers of the Washington Mill Company and the Port Blakely Mill Company illustrate a radically different form of capital relationship with the Bay area. These firms were incorporated in California to buy timberlands in Washington Territory and to conduct logging and lumbering operations. In contrast with the primitive Yesler, Denny Company these companies were well financed and managed by professionals.

A. Washington Mill Company papers, 1857–1890. Includes about 700 incoming letters, four letterpress books and a few unbound outgoing letters. There are also supporting journals, ledgers, and other records. Completely inventoried. Presented in separate donations to the Collection by Clarence B. Bagley, Manson F. Backus, Laurence J. Colman and Thomas W. Prosch, 1918–1935.

The Washington Mill Company, established at Seabeck in 1857, was an offspring of Adams, Blinn and Company founded the previous year in San Francisco. Adams remained in San Francisco to conduct the marketing and financing of the business. Marshall Blinn voyaged to Seabeck to set up the mill, and to begin a long competitive struggle, in particular with the Puget Mill Company, for the log supply offered by small loggers in the area. When the mill burned at Seabeck in 1886, the struggle abruptly ended. (In 1885, near the end of its existence, the Washington Mill Company produced 19 million feet of lumber, compared with the Puget Mill Company's output of 36 million feet.[3])

B. Port Blakely Mill Company papers, 1875–1923. 74 cartons[4] and about 200 volumes of business records. Included are about 40,000 incoming letters; 49 letterpress volumes and about 2,000 unbound outgoing letters. There are also 43 cartons of documents and business records as well as 7 cartons of papers of affiliated companies and 1 carton of private correspondence of the executives. Completely serialized and inventoried. Deposited by Garrett Eddy, President of the Port Blakely Mill Company, 1956. The Forest History Society was instrumental in arranging the deposit.

The Port Blakely Mill Company was founded in 1864 by William Renton, who in 1853 had established a mill near the site of Seattle at Alki Point, from which he quickly moved across the Sound to a location

[3] Johnson, "Source Materials."
[4] Special containers, 10" x 12" x 16".

near Port Orchard where he remained until a boiler explosion imperiled his vision, compelling him to sail to San Francisco for medical aid. With John A. Campbell he returned to construct the mill at Port Blakely. Renton handled the legal problems and land acquisitions; Campbell and his brother James managed the mill.

Although records are meager for the period 1864–1876, some correspondence appears among the papers of contemporary companies and persons. However, the manuscript documentation is substantially complete from 1876 to 1902 when the Campbells sold their interests[5] to a group in San Francisco headed by David E. Skinner and John and James Eddy. Papers of the company for the period since 1903 are with the company's current records, although there is some documentation with those papers at the University of Washington Library for the years from 1903 to 1924.[6]

The sweeping operations of this company encompassed acquisitions of timberlands, economic relationships with small local operators, shipping, tug boating, railroading and other phases of activity. This single company infused the entire economy of the Sound region with its surging energy. The mill was, according to Mr. Ames, the largest in the world under one roof. To supply it, the Blakely logged some of its own lands, but also relied heavily on logs purchased from small operators. Some of the latter became highly successful; one of them was Sol G. Simpson, who founded the Simpson Timber Company in 1895 from earnings gleaned from clearing land for the Port Blakely Mill Company for its railroad (The Puget Sound and Grays Harbor). Small operators frequently expanded their operations by passing the responsibility for paying wages to the companies that bought their logs, by means of loggers' liens and bearer notes. Local entrepreneurs were thus able to tap the reservoirs of outside capital to overcome a paucity of liquid assets, and to enlarge their operations. The process is well documented in the Port Blakely Mill Company papers; it was apparently an important lever for capital growth.

The Port Blakely Mill Company, in common with other mills which were operated from the San Francisco Bay region, shared the difficulty of balancing supply with demand in the Bay Region's lumber market. But, because these firms which dominated the San Francisco market also dominated production in the Puget Sound country, they could and did arrive at operating agreements effected by marketing associations. Two prominent associations of this type were the Pacific Pine Lumber Company and its successor, the Pacific Pine Company. Renton, Holmes and Company, who incorporated the Port Blakely Mill Company in 1876, participated with Pope and Talbot and several others. Charles D. Stimson, an interloper into the San Francisco area market, tells in a reminiscence of the difficulties he encountered while breaking into that market, after he established the Stimson Mill Company in Seattle in 1889.

During World War I, Skinner and the Eddys found shipbuilding more

[5] Renton died in 1895.

[6] Garrett Eddy has indicated that qualified scholars may use those papers which remain with the company.

profitable; they leased the mill at Port Blakely and never returned to milling. The Port Blakely Mill Company now engages in timber investments and management, tree farming, and sells stumpage.

3. Firms which migrated directly from Maine and the Midwest.

In contrast with the Washington Mill Company and the first generation of the Port Blakely Mill Company, the Puget Mill Company, the Stimson Mill Company, and the Merrill and Ring Lumber Company sprang, not from capital which was the product of industry on the Pacific Coast, but from capital accumulations made elsewhere in lumbering: Machias, Maine (Puget Mill Company), Muskegon, Michigan (Stimson Mill Company), and Saginaw, Michigan (Merrill and Ring Lumber Company). It is worth noting that Skinner and the Eddys purchased the Port Blakely Mill Company in 1902 from capital derived primarily from the Eddys' father, a lumberman and banker of Bay City, Michigan.[7]

The Merrill firm derived its capital initially from small farmer-logger operations in Penobscot County, Maine, migrating from there to Saginaw, Michigan, where farming and lumbering also were joined until 1886 when Merrill and Ring formed a partnership which migrated to Washington in 1903.

A. Puget Mill Company papers, 1887–1931. 65 cartons. Includes about 50,000 items of correspondence collected by Edwin Gardner Ames. Relates primarily to the Puget Mill Company, but there are files of allied firms as well. Partially sorted. Gift of Edwin G. Ames.

The Puget Mill Company was constructed at Port Gamble in 1853 by Pope and Talbot, who had migrated from Maine to San Francisco in 1852. Captain Talbot sailed forthwith to Puget Sound in search of raw material, settling upon Port Gamble as a mill site — from there logs and lumber would be supplied to their sailing ships plying the foreign and coastwise trade in conformity to orders funnelled through Pope and Talbot in San Francisco. A large segment of the company's history from 1886 to 1931 is represented in manuscript form by these papers which Edwin Gardner Ames preserved during his years as its Northwest manager (1907–1931). (For Pope and Talbot papers stored elsewhere, see *Time, Tide and Timber.*[8]) Fortunately, the bulk of the papers saved by Mr. Ames is personal and business correspondence, including both his own and those of his predecessor, Cyrus Walker. One of the distinctive features of this correspondence is that it illustrates rather fully the realm of activity of two industrial leaders in an extractive economy on the frontier: their workaday relationships with the Puget Mill Company and Pope and Talbot, and ramifications into matters concerning the industry as a whole (its marketing problems, conservation, labor relations, etc.), their civic and political activities (particularly Ames) and their family life.

[7] Skinner and John W. Eddy had initially ventured into the salt business, but were forced to disband when they ran afoul the Sherman Act. The Port Blakely Mill Company was for sale when this salt capital was awaiting reinvestment.

[8] See Edwin T. Coman, Jr., and Helen M. Gibbs, *Time, Tide and Timber, a Century of Pope and Talbot*. Because operations of the Puget Mill Company have been substantially related in this book, no attempt will be made here to characterize it. Space, instead, will be devoted to a description of the papers only.

Besides his personal and Puget Mill Company correspondence, E. G. Ames preserved correspondence files of the Douglas Fir Company, Douglas Fir Exploitation and Export Company, Pacific Lumber Inspection Bureau, Admiralty Logging Company, Puget Sound Tug Boat Company, Puget Sound Stevedoring Company, the Washington Forest Fire Association, Western Forestry and Conservation Association, West Coast Lumberman's Association and other less important files.

B. Stimson Mill Company papers, 1881–1957. 26 cartons. Also a reminiscence by Charles D. Stimson, founder of the Seattle firm. Partially sorted. Gift of Mrs. Thomas D. Stimson, 1959.

The Stimson Mill Company had migrated to Seattle from Muskegon, Michigan, in 1889. When Charles D. Stimson and his father and brothers decided to move their capital from the depleted forests of Michigan, Charles Stimson settled upon Seattle as his site.

Some record books of the Muskegon firms (Stimson, Fay and Company and Stimson Brothers) are with the collection and cover the period 1881–1891. Similar records exist for the Seattle mill for the period 1890–1906; there is also one line of ledger accounts for the period 1903–1950. However, correspondence is extensive for only the years 1954–1957. There is also a concentration of business records for the period 1948–1957. Between 1906 and 1948 the manuscript documentation is thin but useful, insofar as it includes some summary material and minute books (1911–1917; 1931–1945). One of the most valuable items is "A Record of the Family, Life and Activities of Charles Douglas Stimson . . . ."

The Stimson Mill Company ceased operations in 1957. The capital from the lumber business is now being used in real estate developments.

C. Merrill and Ring Lumber Company papers, 1915–1940. 60 cartons. Unsorted, but in usable order. Gift of Richard D. Merrill, 1956. The Forest History Society was instrumental in arranging this gift.

The Merrill and Ring Lumber Company similarly moved from Michigan to the Puget Sound country, incorporating in Seattle in 1903. Operations continued until 1947 when the company was sold to Rayonier, Inc. Papers of the company offer thorough documentation from 1915 through 1940. The center of the company's work was at Pysht, along the northern edge of the Olympic Peninsula, although the enterprise ranged over much of the Peninsula and across the Straits into Canada. Its Canadian extension represents another important phase in the migration of the American lumber industry.[9] One part of this trend is documented in these papers. The papers rank with those of the Port Blakely Mill Company and Puget Mill Company in their completeness and richness as primary source material.

In addition, there are three smaller collections also which offer some vital interstitial manuscript documentation.

A. Northwestern Lumber Company records, 1884–1934. 90 volumes of journals, ledgers, payrolls, minute books, stock book records, and other

[9] See Meany, "History of the Lumber Industry," chap. 10 for a background discussion of this development. Dr. Meany did not use the Merrill and Ring papers.

bound volumes. One letterpress book and about 500 loose items. Gift of Frank Lamb, 1941.

B. Will C. Ruegnitz papers, 1917–1944. One carton. About 2,000 items of correspondence, 1919–1944, relating to Ruegnitz's work as president of the Loyal Legion of Loggers and Lumbermen. Completely sorted. Gift of Mr. Ruegnitz, 1947.

C. Mark E. Reed papers, 1917–1933. Three cartons. About 2,500 items of correspondence as well as some business records. Completely sorted. These papers were selected by the Simpson Timber Company from some of its files and presented to the University of Washington in 1959.

Mr. Reed's correspondence, in particular, reflects the wide interests of a businessman who was active in politics — he was a Representative in the State Legislature from 1914 to 1930, serving as Speaker part of the time. He was also president of the Simpson Timber Company and an executive in other business enterprises.

Of the groups of manuscripts noted, only those of the Washington Mill Company have been used intensively, and those by Edmond S. Meany, Jr., in 1935.[10] All of the other groups have been added since Dr. Meany's research. The Puget Mill Company papers received limited use by Coman and Gibbs for their history of Pope and Talbot.[11] It seems clear that the history of the forest industries in the Sound region can be authoritatively rewritten from the manuscript sources available in these papers. In addition, files of many extant companies can undoubtedly be used as well.[12]

In addition to the manuscript documentation of the forest industries *per se*, it should be stressed that forest industries are integrally related to regional, national, and continental complexes. The forest industries, a continuing mainstay of economic life, yield records which include papers of heterogeneous enterprises which were and are regionally interrelated, thus providing a source of particularly valuable information for more general studies of the economic history of North America.

With regard to the collecting of such records, the work of the Forest History Society is of unique importance. Without its efforts, much data which is indispensable for authoritative research in economic development would have perished.

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[10] Meany, "History of the Lumber Industry."

[11] Coman and Gibbs, *Time, Tide and Timber*.

[12] Recently the Washington State Historical Society in Tacoma was presented the extensive files of the St. Paul and Tacoma Lumber Company (ca. 1888–1956). The Forest History Society was instrumental in arranging this gift.

There are also archives of some companies in the area to which access is permitted to qualified scholars.

READING RAILROAD COLLECTION

The Reading Railroad on June 9, 1961, announced the gift to the Historical Society of Pennsylvania of more than 200,000 documents and other records covering the history of the 128-year-old carrier between 1841 and 1920.

In announcing the gift, E. Paul Gangewere, president of the Reading, one of the pioneer railroads of Pennsylvania and the nation, said that the collection constituted "what is believed to be the largest single group of historical records relating to a railroad presented at one time to any institution in the country."

The collection covers many phases of the operation of the Philadelphia & Reading Railroad, the original name of the company, and scores of subsidiary lines, including several which predated the founding of the P & R in 1833, Gangewere said.

"Within these files may be noted the 'growing pains' of a young railroad soon to become the first great rail tonnage carrier in the United States, and the largest corporation in the country later in the century," said Gangewere.

The documents came from an old vault in the Spring Garden Street Station of the Reading here. The contents will fill about 500 feet of shelf space in the Society's headquarters at 13th and Locust Sts., according to Richard N. Williams, 2nd, director. He called the gift "one of the very best collections of business records ever presented to the Society."

One of the major parts of the collection, Gangewere said, are approximately 200 letterbooks of officials of the railroad between the period 1844 and 1900. Most of them are the books of Gustave A. Nicolls, superintendent of transportation of the company for almost the entire span of the Reading's nineteenth-century history. Another important part are some 300 books of financial records, including one of the Schuylkill Canal dating to 1816.

In addition, there are thousands of letters of presidents of the railroad, including one written to Nicolls on June 16, 1863, two weeks before the Battle of Gettysburg, by Charles E. Smith, then president of the Reading.

It read: "You had better bring away from Hbg [Harrisburg] all our cars & be prepared to move all valuables from there — the Rebels will be on the West side of the River tomorrow I think."

In one of the earliest letterbooks, in an unfinished letter dated March 18, 1844 — 11 years after chartering of the Philadelphia & Reading — Nicolls commented: "The Canal Co. is a confounded Humbug."

This was a period of intense rivalry between the new railroad and the older Schuylkill Canal Company, which ran from Philadelphia westward along the Schuylkill River. Some of the wooden bridges of the railroad had been burned, and canal company employees were strongly suspected. To guard against "further detention" the railroad employed watchmen with bulldogs. And, significantly, by the end of the year 1844, the Reading became the first American railroad to exceed the annual tonnage of a canal in direct competition. The Reading took over the canal property in 1870.

In anticipation of this enlarged tonnage, the Reading in 1844 placed its first multiple order for steam locomotives from the famed firm of Matthias Baldwin in Philadelphia. Nicolls, in one of his letters, directed that the six engines be named Hudson, New York, United States, Ontario, New England and Virginia.

In the same year, 1844, Nicolls advised another Philadelphia engine builder, the Norris Locomotive firm, that "I regret that our Bridges are not yet considered sufficiently secure to allow the passage of your 18-ton engine. . . ." By 1880, the Reading was operating the heaviest passenger locomotives in the United States, weighing hundreds of tons.

Among the various items included in the collection given to the Historical Society are the following:

1. Draft notes and memoranda for the annual reports of the company.
2. Packets, letters, handbills descriptive of mechanical inventions, patent notices, advertisements for inventions and experiments with inventions for locomotives, cars, switches, fuel, etc.
3. Passenger operations including those for the Sanitary Fair in Philadelphia during the Civil War, the Centennial of 1876 in Philadelphia, special tours by railroad officials and visits from other contracts; passenger travel statistics.
4. Leases, contracts, real estate surveys.
5. Contract agreements with other railroads, suppliers, mines, iron factories, owners of firms on sidings.
6. Mail agreements and post service; express company services.
7. Applications for employment, employment benefits, crews of trains, operating arrangements, etc.
8. Details and statistics on earnings, costs, expenses, schedules of trains, performance of locomotives and trains.
9. Official papers of presidents, chief engineers, vice presidents, division superintendents, and other officers.
10. Letter copy books of top officers of the railroad, many of which are those of G. A. Nicolls, superintendent of transportation.
11. Financial records of subsidiary roads and companies; more than 300 separate books, dating back to 1816.

In addition, the Reading made available to the Historical Society of Pennsylvania a complete bibliography of many additional valuable documents of the Reading, held in the Secretary-Treasurer's office in Reading Terminal. These cover the entire span of the early history of the Reading, and include original minute books of the Union and Schuylkill canals, which pre-dated the railroad.

The bibliography was prepared by Miss Barbara G. Fisher, former archivist of the Reading, now with the Library of Congress in Washington.

HAGLEY MUSEUM HISTORY FELLOWSHIPS

The University of Delaware, in cooperation with the Eleutherian Mills-Hagley Foundation, will award two Hagley Museum Fellowships in April of 1962 for the academic years 1962–1964. Recipients of these grants take graduate work in history and related fields at the University of Delaware. In addition, they spend half of each week during the academic year at the Hagley Museum, Wilmington, Delaware, where they receive training in museum work, and at the Eleutherian Mills Historical Library, where they conduct research. They complete their work, including a thesis, in two years, and graduate from the University of Delaware with a Master of Arts degree in American history. The program is of special interest to those who wish to study the development of American industry and technology.

Each fellowship carries an annual stipend of $1,800, and is renewable upon satisfactory completion of the first year. Applications should be received by March 5, 1962. For further details, address the Chairman, Department of History, University of Delaware, Newark, Delaware.

RECENT DEVELOPMENTS IN AMERICAN BUSINESS ADMINISTRATION AND THEIR CONCEPTUALIZATION

A DISCUSSION OF THE CHANDLER-REDLICH ARTICLE (SPRING, 1961, BUSINESS HISTORY REVIEW)

Business History Review
214–216 Baker Library
Soldiers Field
Boston 63, Massachusetts

April 30, 1961

TO: Messrs. Aitken, Cole, Hidy, Hutchins, Jenks, Johnson, and Williamson

Gentlemen:

I enclose galley proof of the forthcoming Chandler-Redlich article on business administration. In view of the scope and importance of the subject, it seems to me that some very constructive ends would be served by encouraging an exchange of viewpoints. Among other things, the topic is one that should prove equally interesting to historians and to businessmen.

Would it be possible for each of you to forward to me for publication in our Autumn issue such comments as come to mind in reading this article? We would like to conduct the discussion in an entirely informal tone, and I would suggest that you confine your remarks to a page or two, although you can have more space if you wish. In accordance with our usual practice, discussants' letters would be turned over to the authors to answer, in print, as they see fit. This proposal is made with the knowledge and assent of the authors.

There are, of course, many stimulating questions that could be raised and discussed with great profit. There are also, obviously, many other qualified discussants besides those to whom this letter is addressed. I hope others not explicitly asked will feel free to contribute their views.

It would be helpful to have your comments in my hands by May 30, which date would allow the authors a month to work out such replies as they wish to make. We earnestly hope that you can find time in your busy schedule to participate in this promising exchange.

Most sincerely,
George S. Gibb
Editor

GSG:jcr
Enclosure

Comment

HUGH G. J. AITKEN
University of California, Riverside

This article is so pregnant with problems and hypotheses that it is difficult to select those particularly requiring comment. There is a danger that critics may choose, as matters to which they take exception, issues that were of minor, or perhaps only semantic importance to the authors. My comments will focus on what I consider to be the authors' unnecessarily restrictive view of what constitutes entrepreneurial research.

The authors appear to believe that the entrepreneurial approach to history necessarily implies that one must be able to identify by name the precise individuals who participated in a particular entrepreneurial decision. This must be true, because one of the problems with which they begin is the fact that "more and more *unidentifiable* employees below the top level participate in the process." [Italics supplied.] And, in the same vein, they describe entrepreneurial historians as hoping to "*identify* the men who are or were the leaders within enterprises." [Italics supplied.]

As one who has been somewhat closely associated with entrepreneurial research, I am disturbed by these assumptions. They suggest to me that I have unwittingly fallen into heresy. But I cannot refrain from asking myself what purposes this emphasis on the identification of individuals is supposed to serve. Some possible purposes come to mind readily enough. The historian might be concerned, for example, to see that proper reverence is paid to great men of the past or the present. Or he might consider that the naming of individuals, and the attaching of specific actions to specific personalities, would add color and human interest to his narrative. And these would be entirely proper concerns. But they seem to me a trifle flimsy to serve as structural supports for entrepreneurial history. What is so important about being able to name names?

This same emphasis upon individual personalities also leads the authors to insist that we cannot (must not?) speak of an entrepreneurial team unless there is personal contact among the members. By "personal contact" I presume they mean face-to-face relationships. Now, if Drs. Chandler and Redlich wish to restrict the word "team" to this narrow definition, that is their business and I would be the last to cavil. But in this context it appears that they are laying down laws which the rest of us are supposed to abide by as well. And to this I take exception. What is needed to constitute a team (I would prefer to call it an effective organization) is intercommunication and a common purpose. The precise medium of intercommunication is a side-issue. There is no need to insist that communication be on a face-to-face basis.

These are, I think, more than semantic criticisms. The authors' whole article is based, it seems to me, on an alleged necessity for identifying in an organization the individuals who are the entrepreneurs. This is alleged to be not a convenient literary or honorific device, but a *sine qua non* for entrepreneurial research. I disagree.

The reason that I can disagree and still think of myself as an entre-

preneurial historian is that I consider entrepreneurship to be a function of organizations rather than of individuals. To be sure, at certain times and places the organization and the individual have been so closely identified as to be almost synonymous. My study of the Welland Canal Company, for example, was almost as much a biography of Merritt, its promoter, as it was a biography of the company. But this is an extreme case, and certainly rare in the world of twentieth-century American business. I am not prepared to go as far as Harbison and refer to "the entrepreneur" as identical with "the organization." This involves a degree of personalization that I believe to be unnecessary. I prefer to think of entrepreneurship as a variable function of organizations. Some organizations show little or no entrepreneurship. Others show a great deal. And some show a lot at some times and in some areas, but only a little at other times and in other areas. The content of entrepreneurial history is, as I see it, the varying entrepreneurial characteristics of organizations.

Let me overstate my case a little. Chandler and Redlich are saying, in effect, that I can't be an entrepreneurial historian unless I can identify individual entrepreneurs. They regard entrepreneurship as a characteristic of individual human beings. I say that I can be an entrepreneurial historian as long as I have a workable definition of what kind of behavior I mean by entrepreneurship and as long as I can identify organizations that showed, by their behavior, that they had more or less of it. My approach is, I would suggest, a little more permissive than that of Chandler and Redlich. The interplay of individuals within organizations is certainly an entirely respectable area of inquiry, but it is not the whole of entrepreneurial history. Indeed, I doubt whether it is even a necessary part of it. In insisting that entrepreneurial history depends upon identifying particular individuals as entrepreneurs, Chandler and Redlich are making things more difficult for themselves than they need to, while at the same time imposing a methodological strait jacket upon the rest of us.

It is interesting to note that the really substantial sections of the Chandler-Redlich article — the sections that add significantly to our historical knowledge and understanding — are precisely those that deal with organizational behavior and organizational change in American business. For sections II and III of the article I have nothing but praise. The semantic juggling of Sections I and IV, however, seems to me "much ado about nothing." Entrepreneurial historians are interested in how organizations behave; in particular, in how business organizations behave; and most especially in that change-producing type of behavior that is called entrepreneurship. Attempts to identify particular individuals within organizations as *the* entrepreneurs reflect, it seems to me, a romantic oversimplification of the complexities of behavior and role structure within formal groups.

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COMMENT

ARTHUR H. COLE
Harvard University, Emeritus

Continued advance in the study of the evolving structure of business administration in the United States is surely an event to be vigorously applauded by all interested in business history and the latter's close cousins. The pioneering band of Chandler, Redlich, Jenks, Harbison, etc., offers a promise that schools of business administration will shortly be able to offer courses specifically concerned with the exfoliation of that art. Such studies are important also because we possess few data as yet that help us to answer the question, "How did entrepreneurship change on its technical side?" and, until we do have adequate information in this area, we shall remain unable to answer the more profound question, "How was it possible for such advances in entrepreneurship to take place?"

I would surely be much less than discerning — and fair — if I did not pay tribute to the extensive and, in many ways, the pioneering collection of data which Chandler has carried through. He is carving out a special niche for himself in economico-business history. However, I must say that, by and large, the recent paper by my old friends Chandler and Redlich seems to me to call dominantly for the old legal judgment of "not proven." I wish that a larger territory had been explored before the authors had sat themselves down to see what their observations signified. In this aspect, for example, the authors pretend to be covering all "business administration" in the United States, but, even if we forgive them for not surveying the modestly sized and smaller enterprises, we could, I think, anticipate attention to such large and wide-flung business units as the major insurance companies, the chain stores, the public utility companies, especially now the American Telephone and Telegraph Company, the nation-wide brokerage and investment-banking concerns, even perhaps some state-wide, branch-banking institutions.

The failure of the authors to carry their inquiries further leads one to question the major premises of their classification. Is the decisive element in the structural changes that of an advance from a "single-product, single-function" enterprise to a "multi-function, multi-product" one? (Incidentally, should not railroads become classified as at least duo-product? And perhaps the different types of freight should be differentiated. To be sure, passengers and freight were both "transported," but so gunpowder and plastics are both "manufactured" by modern enterprises like duPont.) Until the whole gamut of types of American business institution has been surveyed, how can one determine what have been the decisive forces making for change?

The possibility that this omission might prove important is strengthened, it seems, by the rather faltering manner with which the authors handle the variable of space. Their term "decentralized" appears to cover both geographically dispersed units of a uniform character, such as several shoe factories scattered over the landscape, and geographically dispersed units of variant nature, such as plants each devoted to the

production of specific, divergent items. Nowhere do I find mere distance separately considered — perhaps because the inclusion of this factor would upset the neat classification that had been devised initially.

A second major deficiency of the empirical materials in this notable essay is the neglect of the business environment within which the alleged changes occurred. For example, how can one properly plump for the dominance of the internal elements of "function" and "product" as the critical factors in business-administration changes until one has examined the influence of the evolving credit system, the expanding transportation system, the constantly improving and expanding channels of business communication, etc. What were the roles of the investment banking institutions, the credit-reporting ones, the trade journals, etc.? To be sure, the authors might reply that these ancillary institutions merely permitted change, but is it not also possible that they encouraged the alterations, perhaps promoted them, even if they did not "cause" them? And ought they not to be given appropriate consideration and credit? Possibly even the defects or inadequacies of the external environment should be taken into account, such as the failure of nation-wide banks to develop.

Obviously the value of Redlich's "conceptualization" is dependent in the main upon the conclusions that may ultimately be drawn from an examination of all the aspects of large-scale American business. And incidentally I would make a plea in *business* history for primary attention to *business* phenomena. The economic importance of specific segments of business is only one basis for attention by business historians.

In the meanwhile, I would suggest a couple of considerations which the authors might wish to take into account when they reformulate their conclusions.

Do they not do the study of business and entrepreneurship a disservice when they attempt to give yet a further definition to the term "entrepreneur"? I thought that agreement had been reached at the Research Center in Entrepreneurial History that practically no prior definition of "the entrepreneur" was wholly invalid: he was innovator, coordinator, scapegoat, etc. — even "aggrandizer" of the enterprise with which he chanced to be associated. Indeed, it seems to me that we had quit pretty much talking of "the entrepreneur" except in casual, elliptical discussions. However, now — logically — Redlich would seem to be barring from "entrepreneurship" all functions and activities except establishment of goals and long-range plans for the whole enterprise. I do not believe that he really meant to take this position.

Secondly, I wonder if the authors, if they tried, could not discover additional levels of authority in the large establishment. Inasmuch as finance seems to my friends still so important, could not the stockholder — or the latter's representative, the director — be erected as an "ideal type," and located somewhere in the schema? And how about the overseers, down lower than the "managers"? Should they not also be regarded as constituting a level of authority? And what can the authors do with the regiments of suppliers without which some large industrial enterprises could not well get along? In the case of General Motors,

these ancillary institutions are alleged to number into the thousands. Should they be ignored?

In general, and as a third point of questioning, I wonder if the authors are not really looking in the wrong direction — or have been so doing? Isn't the main problem in business administration that of how the higher and lower officials manage to *collaborate* and get done the total work of the business unit, not how many distinguishable types of officer or staff member one can set up? Admittedly the latter are useful for heuristic purposes, but they are mere aids toward the answering of the really important questions. Of course, the authors *have* contributed greatly toward this answering by their individual and combined research work. Let us hope that they continue on their way.

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Comment

MURIEL E. HIDY
Business History Foundation
and
RALPH W. HIDY
Harvard Graduate School of Business Administration

1. For fear that constructive appraisal may be lost in a spate of destructive criticism, we want to express our thanks to the authors for generalizing about recent changes in business administration in the United States. So much has occurred in this area during the twentieth century that few people can see the woods for the trees. These two gentlemen have shown not only marked courage but more than ordinary insight. We are grateful to them for making us think, whether we agree with them in large part or small.

2. To leave plenty of space for broader considerations, only two questions as to fact will be raised here. We have some doubts regarding the statement (p. 7) that "In the early railroads, the key decisions were usually made by the so-called general manager, a full time specialist, acting in close consultation with the representative of the large investors." The general manager did reach key decisions, as we know, but the ultimate approval and assumption of responsibility certainly resided in the top officers and directors, who represented the large investors. We also suspect that strategy was set by that same top group and that the general manager was entrusted with tactical responsibilities. Of course, he had to make policy on his level too.

   Secondly, we suspect that so little is known of railroad history after 1900 that the generalizations (pp. 8, 17) concerning the declining importance of strategy and planning after 1900 may be inaccurate. Geographic strategy may indeed have declined in importance, but other aspects of over-all strategy may well have increased significantly. As far as we know, scholars have not yet collected or analyzed the data on this point.

3. Perhaps the best way of showing our thoughts on the conceptualization section is to ask some of the questions that come to our minds.
   a. Have we not reached the point when we should avoid the term "entrepreneur"? Have not scholars now assigned so many different meanings to the word that we are now confused? Are not the authors straining a bit to assign it still a different meaning? Could we not devise and stick to a definition of the "entrepreneurial function," then use it consistently without reference to "entrepreneur" at all?
   b. Should we leave aside traditional terms entirely? Would not conceptualization be simplified if we first thought in terms of the range of functions performed in every business enterprise, then noted changes in the allocation of those functions? Did not the owner-manager in the nineteenth century *intuitively* engage in goal determination, planning, and allocation of human and financial resources, for example, even though he did not have the tools nor the need to do so *consciously*?
   c. Have not the authors oversimplified the administrative process by confining discussion to three levels only? Do not the significant levels extend down to the foremen? Are not some students thinking in terms of policy-making at a range of levels from foremen to executive committees or presidents? Is not every person who is assigned a responsibility compelled to formulate not only strategy but tactics in order effectively to carry out that responsibility?
   d. Could we not clarify the concept of authority for decision-making by specifying that such authority implies not only responsibility for making decisions but acceptance of responsibility for all consequences of the decisions? Would not such a clarification make certain that suggestions leading to decisions would not be confused with actually taking the responsibility for making them?
   e. Is the administrative process best conceptualized as a stream of decisions, as it seems to us? Does not a broad policy decision give rise to a series of decisions on all levels down to the individual exercising authority (in a broad sense) over the smallest organized group in a firm? And does not that flow of decisions, plus resultant actions, usually give rise to new decisions regarding over-all strategy?

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Comment

JOHN G. B. HUTCHINS
Cornell University

This paper carries one long step further the analysis of the evolution of big business in the United States. Interpretations of this significant feature of American Economic History have been numerous. The large enterprise has been variously regarded as: (1) a conspiracy of powerful

persons against the public; (2) a product of investment bankers seeking profits from security flotations; (3) the result of economies of scale in mass-production industries; (4) a necessary rationalization of the waste and chaos sometimes found in small-scale business; (5) the outcome of the evolution of legal concepts and political institutions; and (6) the creation of great organizers. To a large extent these methods of treatment have been based on the study of the environment external to the firm. Now Chandler and Redlich have explicitly recognized that the large firm may also be the result of the development of new techniques of policy formulation and administration. The result has been the growth of multi-product, multi-function firms of ever-increasing size and complexity.

The three-level schema of single-product single-function, single-product multiple-function, and multiple-product multiple-function firms appears to be a felicitous device if these are considered as ideal types. It is useful to compare schematically the Pepperell cotton mill of the 1850's, the Carnegie Steel Company of the 1890's, and the modern Union Carbide Corporation. It is also useful to consider such a disorganized multi-product, multi-function firm as the eighteenth-century British East India Company, in which the shell was present but policy formulation and administrative methods were but little developed. But the authors could usefully consider the problem common to all such schema: the causation and path of development from one level to another. Did large-scale firms create modern management, or did the latter create the former? The answer is certainly not clear. It seems reasonable to suppose that important stimuli to growth originated in substantive economic and technical forces. It also appears likely that such drives were powerfully reinforced by a series of developments in the tools and techniques of business administration. In the future it may well be that Economic Historians will rank high on the list of strategic inventions, along with steam power, steel, machine tools, the railway, and electricity, such devices as the telephone, typewriter, teletype, duplicator, mechanical calculator, and electronic computer. Indeed modern communications devices have made the modern national firm possible, and the truly international management is at least a possibility. The effect of such innovations, and of the development of skilled experts to make use of them, has been to push out to a vast extent the limits of direct administration in contrast to guidance by means of market phenomena. There is reason to believe that this trend will continue for some time.

The analysis also supplies a foundation for the explanation of certain other phenomena in the Economic History of the last hundred years — trends which have been noted by specialists but have not become embodied in the literature of Economic and Business History. Prominent among these phenomena are: (1) the building of large and often elaborate headquarters buildings, usually in major cities, with their effects on metropolitan structure; (2) the growth in the importance of middle management as a means of preparing for decision and of implementing decision; (3) the development of specialists within and without companies in such management techniques as accounting, market research, operations research, statistical control, and behavioral studies; (4) the

lengthening and broadening of the hierarchical ladder, coupled with selective recruiting of educated personnel; and (5) the development of the art of group decision on the basis of a written record in replacement of individual decision on the basis of personal impression. This last aspect has in turn given new importance to the female secretary and her mechanical equipment, business travel by air, and extensive facilities for meetings of all kinds. Never before in history was so much done through the committee, conference, and board.

The paper also provides guideposts for still another topic in Business History — the institutionalization of the firm. One might perhaps think that vast impersonal forces propelled business collectively toward the higher types of structure, but this is not quite a correct impression. Most enterprises have begun in a small way as creations of individual entrepreneurs, each of whom possessed some resource of ability or facilities sufficient for the purpose. Most have remained for some time dependent on the ideas, abilities, resources, and health of the founders. A small number have been able to rely on effective family direction for several generations. But at some time each enterprise has faced a crisis of managerial continuity in which it either perished for lack of leadership, was sold or merged, or entered on the smooth, broad uplands of institutionalized organization in which it was independent of particular individuals or families for top management, capital, and particular skills and resources. Such a firm often then faced for the first time such new issues as what it should make or do, where its operations should be conducted, how it should be organized, and what style of policy it should adopt. Ordinarily, barring serious failure in its group management or national catastrophe, it might look forward to unlimited life, either running sole or as a unit in a still larger business. Hence, as time passes, the age structure of the 500 largest corporations may be expected to increase. But to the older giants are continually added newcomers which are passing into the institutionalized stage. The Marshallian concept of the forest of firms, some young and rising, some mature, and some decadent, is thus reproduced, but the time span is multiplied manyfold. It is on the great institutionalized firms, new and old, that the economic strength of the country has come to rest, and it is to their service that a large portion of the college educated young men have become destined.

The schema also permits of useful comparisons with business enterprise abroad, especially in less developed areas. There business firms are commonly still outside the institutional stage, and are often not of the multi-product, multi-function type. Middle management is relatively smaller, the ladder of advance is but little developed, there are few channels from universities to management, more decisions are made by individuals than by groups, and preparation for decision is much more restricted. It is possible that in the United States management is overstaffed, but clearly the ratio between management personnel and production personnel has been rising.

Finally, in connection with the schema one might also wish to emphasize differences as well as uniformities. Each enterprise bears marks of its past in the form of concepts, organization, and patterns of leadership. Most notable firms have achieved success because of one or more sig-

nificant strengths: scientific discovery, empirical production skills, new ideas in marketing, strategic patents, an ability to construct a great alliance, economies of scale, or control of strategic materials or transportation. It has often happened that at various times certain types of abilities have been in short supply: production skill, marketing drive and know-how, power to command financial resources, ability to deal with the complex legal problems of big business, and most recently the ability to organize and coordinate men effectively. Thus a Standard Oil is different from a Ford, and a Ford from a General Motors. But in the long run the separate paths in policy and administration may be expected to draw together under the influence of commonly held ideas and the upward migration of personnel on the management ladder.

To sum up, the evolution of a firm through the stages of the schema may be expected to be influenced by the entrepreneurial concepts and abilities of the founders, by the special emphasis required from time to time in management, by the speed of institutionalization, by the use made of the new tools of administration, and by the levels of education, rationality, and cognitiveness of both higher and middle management. National administrative history can be no more than a summation of the parts.

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Comment

LELAND H. JENKS
Wellesley College

The conclusions of this important paper are highly persuasive. Numerous of its insights, especially in the treatment of the function of coordination, are stimulating. It is my impression that in their conception of a three-level scheme of organization the authors have made a substantial contribution to the understanding of the management of big business and its history. This may also be true as to the typology of industry, especially with respect to manufacturing and distributing industries. My comments will be confined to what they have to say with respect to railroad organization.

It is a well-known fact that by and large railway managements in the United States have not participated notably in the management movement of the last half century. Hence it is understandable that effort will be needed to persuade students of management that American railways were ever abreast or ahead of other organizations of their day in managerial sophistication. I do not intend to argue the point of absolute priorities. But Chandler and Redlich might have placed the date of railway concern for formal structure a decade or so earlier, and on the basis of a much larger volume of evidence than they suggest.[1] A similar claim might be made for the rise of consistent business policy, in the broad sense which they seem to attach to that term. When they suggest

[1] Leland H. Jenks, "Early History of a Railway Organization," *Business History Review*, vol. XXXV (Summer, 1961), pp. 153–179.

that in the decades following the Civil War developments took place in the organization of several great railway systems which foreshadowed those in other great corporations, they do not overstate the case. In official railway circles the 1880's and 1890's were characterized by an internal movement or movements for reform, aimed at the systematic improvement of management, which eventuated in the spread of a great array of fairly uniform routines over a large proportion of railway mileage. The expanding industries of the day, not only in machinery, drew heavily upon railroad executives for their managers and superintendents. By 1870 such systems as the Pennsylvania had accounting procedures far superior to anything known to have been a part of industrial practice.[2] Albert Fink was by no means the only official who worked in detail on the relation of variable costs to volume and composition of traffic. Railway accounting officers had professional associations before any other group. There were railways that had committee systems and budgets. A distinction between what were called general, regional, and divisional officers was explicit for many lines in the official directories of the 1880's. The duties of general officers with respect to departments were frequently stated to be those of "general supervision." Elsewhere in this issue I document in detail the ways in which the Pennsylvania by 1882 had worked out a multiple-level organization which seems to correspond closely to the specifications in Section IV of the Chandler-Redlich article.[3]

The establishment of such facts is an important part of the history of business management, regardless of the three-way conceptual scheme. The question arises as to how serviceable the latter is for the understanding of the history of railroad organization. How well do the railways fit in? Any such scheme must have the flaw that it simplifies the facts. Its refinement for historical use calls for, among other things, precise indications as to the extent and limitations of its applicability. This article leaves some room for doubt. The empirical referents, in the case of railways, for such terms as "single-product," "function," "operations," and "staff" are not always certain. Moreover, there are statements which I am inclined to view not as inaccuracies but as symptoms of the difficulty experienced by the authors themselves in fitting unrefined theory to recalcitrant data. Contemporaries would have been astonished to hear that "the manager in charge of transportation was senior to the heads of the other two departments." In the era of rapid expansion, it was the traffic men who had access to the entrepreneurial ear. How can traffic managers be spoken of as "staff men?" In illustration of the emergence of a three-level organization in the railways no mention is made of the Chicago, Burlington & Quincy or the Plant system, while the Chicago & Northwestern and the Rock Island are singled out, for reasons not apparent. I am not widely read as to railway organization in the twentieth century. But it is pertinent to note that one purpose of the Atterbury reorganization of the Pennsylvania system in 1921 was to leave more time to the company's general officers "to consider the

[2] Cf. Leland H. Jenks, "Early Phases of the Management Movement," *Administrative Science Quarterly*, vol. 5 (1960), p. 427, 14n.

[3] Leland H. Jenks, "Multiple-level Organization of a Great Railroad," *Business History Review*, vol. XXXV (Autumn, 1961), pp. 336–343.

broad questions which affected the system as a whole." [4] It is clear that I require further indications if I am to apply the scheme to the same results as Chandler and Redlich.

A more serious question involves the relation between the two main sectors of their scheme — the typology of industry by product and function and the three-level typology of organization. It is my understanding that their general theory of the development of organization makes change in the latter dependent uniquely upon change in the former. How does this apply to railways? For all we are told, the railways began as a single-product, single-function type, and so remained substantially. Thus the rise of multiple-level organization on great railway systems must be ascribed to other factors than changes in their products and functions. Correspondingly it would appear, the relative retrogression in railway organization alleged to have taken place in the twentieth century cannot be attributed to a change in principal product but also to other factors. The "general theory" does not seem to have explanatory value with respect to the course of railway management.

To be sure, that there are differences between industrial fields is an essential part of this theory of development. The question is whether the typology by products and functions adequately embraces the differences between railways and other industries which were important for their different experiences in organization.

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Comment

ARTHUR M. JOHNSON

Harvard Graduate School of Business Administration

The article by Messrs. Chandler and Redlich is indeed a stimulating and provocative contribution. Business history benefits from such efforts to integrate historical and theoretical analyses. If they stir discussion and controversy which result in enlightenment and not animosity, so much the better. At your invitation, therefore, I am happy to add my kindling to the fire.

As I understand the article, the authors set forth the proposition that there are three levels of organization for decision-making instead of two. Since I am no expert in organization or decision-making, I decided to see what had been done elsewhere in this field and found that Herbert A. Simon (*The New Science of Management Decision* [New York, 1960], p. 49) has also observed that business organization in terms of decision-making is constructed in "three layers." Apparently, then, the idea is in the air.

The fact that others may have seen the same structure as our authors does not detract from the latters' contribution, but it does call for a more critical evaluation of the way in which they develop it. It is on this point that I would like to raise a few questions. First, how essential are the historical sections of this article in terms of the theoretical

[4] George H. Burgess and Miles C. Kennedy, *Centennial History of the Pennsylvania Railroad Company, 1846–1946* (Philadelphia, 1949), pp. 567–569.

analysis and vice versa? One is tempted to say that each could stand better on its own feet. This feeling is strengthened by the conclusion (p. 27), where the relation to much of the preceding analyses seems tenuous. I agree with the substance of the concluding paragraph when it places emphasis on the locus of ultimate authority. However, the authors do not seem to have related this point adequately to their three-layer organizational scheme. Therefore it seems appropriate to ask: How has the locus of *ultimate* authority changed over the last hundred years? How has the newly discovered locum-tenential layer affected this locus, if at all? Perhaps the answers are in the article; if so, they escaped me.

This brings me to another point. The term "top team" is substituted for "top management" because the latter term is judged to be inappropriate (p. 22). However, there is no demonstration that "top team" is any more appropriate. In what respect does "top team" improve on "top management"?

The top team is identified (p. 27) in terms of goal determination, planning, and budgeting. I would raise the question whether "budgeting" is properly identified as a "function" in this context. As the authors state (p. 18), budgeting is "both a means of supervision and an expression of policy." In my view, it follows rather than precedes goal determination and planning and flows from them. Why is the order reversed in the discussion of ultimate authority on page 26? Isn't budgeting a tool rather than a function?

Turning to the historical analysis, I wonder about the relevance to the conclusion of the product-and-function approach. Would not an approach based on the evolving relationship of ownership to management be more appropriate to the theoretical analysis of section IV? Do not the available techniques of data transmission and evaluation have a greater impact on the location and nature of major decision-making than product and function? Lacking expertise in the field, I do not advance these questions with any great certainty, but I look forward with interest to the rebuttals.

With a bit more certainty I think it is possible to challenge the statement (p. 6) that "Modern structure and administration of industrial enterprise began in the United States with the geographical dispersion of such firms." Did the authors consider and discard the operations of the Boston Associates? The activities of this entrepreneurial group who established the industrial complex at Lowell were multi-function and some of their individual enterprises were multi-product. Furthermore, they employed some rather advanced concepts of administration. A perusal of George Gibb's *Saco-Lowell Shops* will illustrate what I mean.

While Messrs. Chandler and Redlich do not deny that there are qualifications to their generalizations, indeed they have included many, such categorical statements as the one quoted above raise the question whether the authors have exercised adequate caution in their commendable effort to find a pattern of organizational development. To pursue this point a bit further, was mid-nineteenth-century railroading single-function (p.6)? True, railroads were in the transportation business, but many of the major western roads were in the land business and many allied activities which were nontransportation in character. Since rail-

roads in the undeveloped area of the country had to develop and people it (and this was the area of greatest railroad expansion), there was more to railroading than, to use the authors' term, "running a railroad." This fact was reflected in the organizational structure of such roads. Perhaps this point has no relevance to the authors' scheme, but again it may. If historical data are to be used to support a conceptual framework they must be satisfactory to the doubting empirical historian. Otherwise the pioneers in conceptualization will lose the very audience they should be influencing.

Despite the negative tone of these comments, I applaud the publication of this article and the effort of the authors to rise above the empiricism that has characterized too much writing in business history. Boiled down to their essence, my comments can perhaps be summarized as an expression of anxiety that Messrs. Chandler and Redlich, for whom I have great respect, have risen too far and too fast. I do not question that they are moving in the right direction. I hope that this communication will induce them to clarify, rebut or qualify some of the points that have been raised here in the interest of promoting discussion.

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Comment

HAROLD F. WILLIAMSON
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Students of business history are indebted to Chandler and Redlich for their discussion of the problem of applying traditional concepts of the entrepreneur to an analysis of the decision-making process in modern enterprise, particularly in large, diversified corporations. Indeed, much future confusion could be avoided if scholars would generally accept the authors' suggestion that the term entrepreneur be used only to identify individuals who make major policy decisions and have final control over the allocation of capital funds.

While the authors' distinction between strategic and tactical types of decision is not new, they have made an important contribution by identifying a second group of decision-makers, relatively free to operate within major policy and budgetary limitations imposed by top management. This identification provides a convenient method of examining decisions that may be quite critical for the success or failure of a particular firm, but are different to a significant degree from those made by the top-management group. Yet scholars are still faced with the fact that the organizational structure for carrying out entrepreneurial-management functions may range from the one-man operation, where all decisions are made by a single individual, to an investment trust, whose decisions to buy, sell, or hold the securities of a particular company may have an "entrepreneurial effect" on the concerns through their influence on the cost of capital funds.

Given this broad spectrum, my colleague, Professor R. B. Heflebower, has suggested that, from a theoretical standpoint, one very useful way of analyzing the decision-making processes in a business entity is to ex-

amine the time-perspectives followed by various individuals in the management hierarchy in making their decisions.[1] It is true that the time-perspectives followed generally become shorter as the analysis moves from the top-management group (or entrepreneurs) to those who are in the second or third groups of decision-makers, as outlined by Chandler and Redlich. It appears to me, however, that an application of this concept to the study of business organizations would provide an important additional way of identifying and analyzing significant differences in the locus and characteristics of the decision-making processes.

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Reply

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and
FRITZ REDLICH
Harvard University

We are grateful to the Editor of the *Business History Review* for having invited outstanding experts on the history of business administration to review our paper and to the latter for having responded to the call. Before answering, let us restate and clarify the goals of our essay.

(1) We wanted to show that business historical material can be used in developing economic theory;

(2) We intended to reshape inherited entrepreneurial theory so that it can be applied in analyzing twentieth-century reality;

(3) We wished to point out that industrial business administration is dependent in one particular aspect on type of enterprise; and,

(4) Finally, that a three-level administration is of late growing out of a two-level administration, typical of the nineteenth century. We defined those three levels as the entrepreneurial, on which long-range plans are made and simultaneously means of production are allocated; the locum-tenential, on which there is planning within allocated means of production; and the operational (managerial), on which allocated means of production are applied according to plans.

Criticism is correct on two points. We have come to realize that the inclusion of railroad administration in the discussion requires modifications of our model of industrial administrative development, an ideal-type model, of course. But we are disappointed that our critics remained negative instead of telling us how it was, in their opinion, that a three-

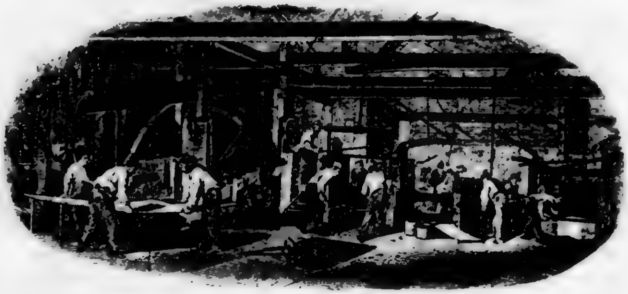
[1] "Observations on Decentralization in Large Enterprises," *The Journal of Industrial Economics*, vol. IX (Nov., 1960), pp. 7–22.

stage administration, once developed, relapsed into an old-fashioned, two-level administration. Or more specifically, why did the General Manager of a major unit *within a system* who, as the executive in charge of transportation, had been senior to the Traffic Manager and Financial Officer, lose standing over time to become their equal? This is from our point of view the crucial problem to be answered.

Criticism is also correct in that we did not make clear that there are *several* factors determining the structure of business administration. Type of enterprise is one of them; the stage of development of transportation and communication is probably the most important. The legal form of ownership determined the spirit and not, as one of our critics thinks, the structure of business administration, unless he claims that private property in an enterprise impedes the development of a rational structure, which is correct.

Yet a good deal of criticism is based on different *Weltanschauung* and different opinions as to method. The attentive reader will have discovered that in this respect the discussants widely disagree among themselves. We hope, therefore, that we will have the chance to take up the specific comments and criticisms with each of the individual commentators. Individual discussion should help clarify many of the terms that brought varied and sometimes unexpected responses — such words as "budgeting," "staff," and even "modern," "senior to," or "identify." Of course, the difficulty is more than one of words. It results from fundamental differences of opinion as to the ways of handling historical data and to the purposes of historical research. For example, while we deal with a figure of theory, one commentator speaks about an empirical figure, others want to forbid us to investigate that figure, yet another drags the innovator into a model of administrative development.

We appreciate the encouragement expressed in the discussion and wish to acknowledge the particularly helpful nature of Professor Williamson's suggestions. Our thanks are due to all participants for the time and effort which they have contributed to this discussion.



BOOK REVIEWS

Five Centuries of Printing in London

A Review Article

by William Kahl
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England, as Gilbert and Sullivan point out to us, is a realm which abounds in historical and political anachronisms. The Lord Warden of the Cinque Ports, the Queen's Champion, the College of Arms, and the London Livery Companies are but a few survivors of the middle ages beloved of Englishmen. Watching over such fragile and, in some cases, hearty remnants of the past, antiquarian societies, themselves more often than not of ancient vintage, enjoy a flourishing existence. Moreover, businessmen are not entirely free of the national penchant to preserve any institution or traditional privilege which can with decency be kept alive. A case in point is the present controversy in the publishing trade. The Queen's Printers, Eyre and Spottiswoode, claim the right to share with the Oxford and Cambridge University Presses the printing of the *New English Bible* for which the Universities hold the copyright.

However, the Queen's Printers have enjoyed the privilege of printing bibles and prayer books since the days of good Queen Bess. Printers who sought to break in on the monopoly ran the risk of losing their right hands in the market place. However, we may safely assume that the Eyre family, who have held the royal patent since they bought it in 1769, have no such penalties in mind for officials of the University Presses and that their motivations are entirely financial. At first the royal printers held their privileges to the exclusion of all others. But after 1629 first Cambridge and then Oxford obtained from the King the right to establish presses and to produce any book in print. Thereafter, the royal printers shared with the Universities the printing of the King James version of 1611, usually referred to as the authorized version.

Whether an antiquarian dispute among three printing houses over the right to print the bible is, in itself, an anachronism, in view of modern copyright laws, is by no means an academic question. The *New English Bible* has proven to be a best-seller and, therefore, the stakes in the con-

troversy are high. Advance orders justified an initial printing of one million copies and continued high sales produced a further impression. When, therefore, early this year the University Presses announced they would license other publishers to print the new translation, the Queen's Printers reviewed their Royal Letters Patent and intimated their intention to print the new translation of the bible.[1]

The controversy over the *New English Bible* illustrates some of the economic and social problems which have been peculiar to printing and publishing throughout the history of the industry. Returns on capital investment have tended to be modest, and competition has been intense. From the sixteenth to the eighteenth centuries the limited market for books made a high yield improbable. When the demand for newspapers and magazines increased in the eighteenth century, the technological limitations of both paper manufacture and printing prevented publishers from exploiting the market. Periodicals with mass circulation were impossible until the industry developed power-driven, rotary reel-fed perfecting presses in the mid-nineteenth century.

However, when modern fast-printing presses were introduced, they were enormously expensive. Machines radically altered the economy of the industry, and mass circulation became essential for their profitable operation. In the early twentieth century, therefore, newspaper publishing became big business. Mergers provided capital and circulation to keep the machines running. Editors, always with an eye on the readers, used the "extra" edition, banner headlines, and sensationalism to promote sales. But the new journalism was an uncertain guarantee of profits. Advertising, on the other hand, offered a sure and lucrative revenue. During the 1920's a turning point came in the history of English journalism when the large drapery stores began to use the press for display advertising. Within a decade, advertising rendered the great metropolitan newspapers and national periodicals independent of reader sales.

However, the economics of printing have important political and social connotations. From the sixteenth century to the present, printers and publishers have had to weigh the relationship of profit to political institutions and cultural standards. This is by no means a simple matter for historians to assess. Whether early nineteenth-century printers who put out pamphlets attacking the political system were radicals or merely enterprising businessmen is not always clear. When, for whatever reasons, printers plumbed the market for unorthodox literature, they assumed the risk of prosecution by the state. The traditional response of government to seditious and heretical literature was censorship, and in England some form of licensing was in force until 1695. But in the absence of political control over the press the alternatives of news reporting and sales have remained to disturb the minds of conscientious publishers. They still have to balance the publication of sensational news contrary to national interest or literature harmful to moral standards against the profits of higher circulation.

The problem which exists at the present time in the English press, and in publishing generally, is formidable. The dependence of the press upon

[1] *The Economist*, March 11, 1961, March 18, 1961; *The Times* [London], March 9, 1961; *The Sunday Times* [London], July 2, 1961.

advertising and the competition among periodicals for circulation indicate the economic determination of the press. To be sure, newspapers in open societies are free from governmental control. But in casting up their balance sheets, publishers must gauge the standards of their products by the cost of operating their presses and the mass market which they serve. Under such conditions the question necessarily arises whether literary talent and artistic integrity can survive. The economics of the press and the demand of the market would seem to dictate books and periodicals of mediocre, sensational, or indifferent quality.

The history of the social and economic problems of English printing and publishing have been the subject of four recent books: Cyprian Blagden's *The Stationers' Company*, P. M. Handover's *Printing in London*, Louis Dudek's *Literature and the Press*, and Royal A. Gettmann's *A Victorian Publisher*.[2]

The Stationers' Company: The Medieval Book Trade

The printing trade in England, as in Continental countries, grew up in the shadow of the medieval book trade. When Caxton set up his printing office in London around 1476, four craftsmen created handmade books. The parchminer supplied the parchment, the scrivener the text, the lymner did the illustrations, and the binder the cover. All of these craftsmen worked for stationers who, trained in any of the crafts of bookmaking, were primarily shopkeepers. As retailers the early stationers undoubtedly carried on a custom trade. They probably took on the responsibility for producing whole works and hired textwriters, illuminators, and binders to carry out the different stages of book production. If the stationers carried a stock of books, they were probably secondhand prayer books and school textbooks.

The textwriters, lymners, binders, and stationers, like all medieval craftsmen, were freemen or members of a guild. In 1357 there was a craft guild in London composed of scriveners, who specialized in writing legal documents, and lymners or illustrators. Twenty years later the scriveners had parted with the lymners. Textwriters, who did not specialize in legal documents and books, remained with the lymners along with the stationers to form the Stationers' Company around 1441. Insignificant among the London guilds before the development of printing, the Stationers' Company supervised the quality of craftsmanship and apprenticed boys to master craftsmen. The officials of the guild also zealously prosecuted foreign craftsmen from outside London and aliens from outside the realm who sought to intrude into the London book trade.[3]

Printing under Guild Control

Printing revolutionized the book trade and created a wholesale trade in books on an international scale. The printers who followed Caxton in

[2] Cyprian Blagden, *The Stationers' Company. A history, 1403–1959* (Cambridge, Mass., 1960), 321 pp.; P. M. Handover, *Printing in London from 1476 to modern times* (Cambridge, Mass., 1960), 224 pp.; Louis Dudek, *Literature and the press* (Toronto, 1960), 238 pp.; Royal A. Gettmann, *A Victorian publisher. A study of the Bentley papers* (Cambridge, England, 1960), 272 pp.

[3] Graham Pollard, "The company of Stationers before 1557" and "The early constitution of the Stationers' Company," *The Library*, 4th ser., vol. xviii (1938).

the late fifteenth century were not merely printers but wholesale dealers. Stocking printed books, however, needed more capital than the old custom trade, and wholesale bookselling locked up still larger amounts of money. Many early printers, therefore, were entrepreneurs, importing books from Venice, Paris, Leipzig, and Bruges. Within England, stationers marketed their books almost entirely through fairs. They could not set up shops in provincial towns because the privilege of selling by retail was restricted exclusively to the freemen or citizens of the town. Retailing goods at the big fairs held periodically throughout the country was open to any merchant. Large-scale London booksellers, therefore, sold their books at wholesale rates to provincial retailers, but at the fairs they could charge retail prices.[4]

The printed book trade reflected the development of English medieval business. For several centuries London had been the center of capital and credit; its merchants controlled the greater part of the national wholesale trade in most commodities. The reason for this concentration was that citizens of London had the advantage over merchants from other towns because of their privilege of exemption from tolls throughout the kingdom. The great difference, however, between the wholesaling stationer and the merchant in the cloth trade was that the return on capital invested by the stationer or bookseller was much more modest than the profits of a clothier or merchant tailor. Therefore, early in the history of the book trade an intensive competition grew up among printers and booksellers for books with the widest possible sale.

The printers also suffered competition from outside the guild. Indeed, they received less protection against intruders into their craft than the members of older, more established London trades. It was traditional for guilds to restrict or prohibit the business activities of aliens and foreigners. To qualify for trading in London a man had to have been born the son of a freeman of the City or to have served an apprenticeship to a master craftsman and been made a freeman of his guild. The third way into trade was by patrimony. This was a grant of citizenship by the Common Council at the request of a person of note, a procedure eventually adopted by the guilds.

However, by the late fifteenth century the obstacles placed in the way of aliens setting up in trade were prohibitive. In 1484 Parliament passed an Act severely limiting the conditions under which those who were not English by birth could trade or work. But none of the limitations were to affect foreigners in the printing trade. Continental printers were welcome in the early stages of the industry for the skills and techniques they might bring with them. Inevitably, however, the feeling of the second generation of native stationers hardened against aliens. In 1534, therefore, Parliament, partly in response to the prompting of the Stationers' Company, repealed the exceptions made 50 years earlier in the interest of alien craftsmen.[5]

Monopolies: Book Patents and Copyright

Competition among stationers for best-selling books proved to have no easy solution. It consumed the passions of printers and the energies

[4] *Ibid.*, pp. 16–18.
[5] Blagden, *The Stationers' Company*, pp. 25–28.

and skill of the guild fathers for the next two centuries. Considering their modicum of profit, printers took every precaution to protect their books from piracy. They wanted no reduplication of their works diluting the already limited demand of the sixteenth century. A resolution made in 1565 by the governing body of the Stationers' Company reveals two methods by which a kind of copyright could be procured. A printer or bookseller could secure this protection for his books either by a royal grant or by the rule of the guild which made it an offense not to present to the Wardens for recording every publication not printed under royal privilege. However, at the beginning of the sixteenth century, printers had obtained royal grants for specific books, and within a short time whole classes of books, such as prayer books, were restricted to the holders of patents. As a result, a small number of monopolists grasped the profitable part of the trade.[6]

By the end of the sixteenth century, the monopolists also presided over the government of the Stationers' Company. In 1557 the company obtained a charter of incorporation, in which the ruling body or Court of Assistants achieved the widest authority of any London guild over its trade. These extensive powers of supervision stemmed from the failure of the government to cut off the flow of seditious and heretical literature. Royal proclamations, issued by the Privy Council over a period of 30 years, had proven fruitless and what the Counsellors needed was a quasi-official body to which it could delegate powers to restrain the press. The guild, long anxious for supportive authority from the Crown, proved to be a ready instrument for the Council's purposes. As a result, the government entrusted the London Stationers' Company with powers of trade control for the entire kingdom. This authority could, indeed, be turned to handsome advantage by an oligarchy. And the rulers of the Stationers' Company used their position to drive foreigners and aliens out of the trade and to frustrate the attempts of rival printers to raid the book empires of the monopolists.

The combination of control of the patents for best-selling books and domination of the Stationers' Company by a few capitalists who were able to use the guild's wide powers of regulation to defend both the interests of the State and their own properties inevitably stirred opposition. Printers unable to find employment, booksellers wanting to share in the monopolies, and book-binders hopeful of an opportunity for airing their grievances within the trade joined forces against the influence of the monopolists. In 1578 there were public complaints by freemen against the government of the company. The same year journeymen printers complained of the hardship wrought by the system in a petition to the Privy Council. By 1582 there was such a degree of confusion in the trade that a Royal Commission was appointed to look into the complaints of workmen printers. Within the next year, therefore, the company attempted to alleviate the worst effects of the system of monopolies and to reconcile the warring factions. As a contribution for the maintenance of the poor, a number of capitalists who held royal patents made a gift of a large number of privileged copies to the company. The Wardens and

[6] *Ibid.*, p. 32.

the Court of Assistants, the governing body, were able, therefore, to provide work for the discontented printers.[7]

The English Stock

The most enduring attempt of the Stationers' Company to find a solution to the conflict of interests between the capitalists and the trading element was the formation of the English Stock. This was a joint-stock organization to produce and wholesale books. As early as 1591 the company had begun to invest in some of the royal patents. By 1594 a separate body of governors had come into existence to manage the company's interests in various patents. At the accession of James I the company obtained a royal grant for the exclusive right to print primers, books of private prayer, and almanacs. Out of the revenues from the exercise of the privilege the company undertook to pay £200 a year to the poor. The Stationers established the stock in part because the company offered the best opportunity for amassing capital and administering the complicated printing empires which the sixteenth-century printers had developed. They also saw the stock as the method by which the company might admit limited numbers of its members to the profits of the monopoly through a system of stockholding based upon rank and office in the guild.[8]

The history of the foundation and management of the English Stock, only now being liquidated by a bill pending before Parliament, is the principal contribution of Mr. Blagden's *The Stationers' Company*. This careful and definitive work is more an analysis of the place and functions of the Stationers' Company in the history of printing than it is a narrative of events. Using the records of the Stationers' Company as his principal source, Blagden has given the most attention to the years 1660 to 1810 which hitherto have received little notice. The more important earlier period from 1557 receives less emphasis because of the large body of material already in print. For the last 150 years of the company's waning influence he provides a summary account. There are two brilliant and detailed chapters on the finances of the company and the English Stock and the properties of the company.

However, the author's study of the English Stock — its foundation, its role in the life of the guild, its prosperity — is the most important part of the book. As a result, Blagden has provided an excellent case study of the influence brought to bear upon the government by businessmen in the printing trade from 1557 to 1700, the most active years of the guild. Also he describes how the stock became the instrument by which the Stationers' Company acquired a near monopoly over the most lucrative part of the trade and kept within a single corporation both the capitalists and the workers.

The Periodical Press

In the seventeenth century, however, enterprising printers with a canny business sense foresaw the possibilities of a wider market outside the privileges of the monopolists. Almost at the beginning of the reign of

[7] *Ibid.*, chap. IV.
[8] *Ibid.*, pp. 74–77.

James I the country was caught up in a tide of religious and economic change which culminated in thirty years of war on the Continent and civil war within the realm. Throughout the century, therefore, there was increasing demand for quick information and a receptive market for entertainment. The newspaper was the printers' response to the market for news while the magazine was developed to amuse the reader.

Until the end of the seventeenth century, news publication was restricted by the traditions of the printing trade and by censorship. Now it is obvious to a reader today that a periodical differs from a book. But early printers were slow to realize in what ways the two were inherently unalike. News, therefore, was published originally in the format of a book. Such news-books were neither the work of any one publisher nor part of a regular series. The contents reported only a single event taken from one source. News-sheets, when they developed later in the century, had miscellaneous articles. Until 1695 severe penalties prohibited the publication of domestic news except for the inconsequential and non-political: natural disasters, executions, monstrous births, and royal speeches.

At the beginning of the eighteenth century the newspapers were released from the stultifying effect of press regulation. Almost at once newspapers appeared in larger numbers not only in London but also in the provinces. Made possible by the daily postal services between Dover and London, morning papers could publish the latest foreign news. And they quickly put out of business the older twice-weekly or thrice-weekly sheets. The *Daily Advertiser*, established in 1730, became the dominant London periodical. For the rest of the century it provided extensive news-service, commercial intelligence, and a wide variety of advertising.

Magazines also became an established institution in the early years of the century. The founders of the weekly periodical press were Richard Steele and Joseph Addison. Taking their example from *The Tatler* and *The Spectator*, the eighteenth-century magazines became the source of polished and authoritative comment on literary and artistic subjects, moral instruction, factual news-reporting, and entertainment. Many of the early magazines were short-lived. But *The Gentleman's Magazine*, which attained a large circulation by contemporary standards, flourished from 1731 to 1907. Due to the wide appeal of *The Gentleman's Magazine*, the term magazine quickly became generic for this kind of periodical.[9]

Beginnings of Modern Journalism

Modern journalism arose with the era of revolution which swept the Continent after 1789 and nearly overwhelmed England during the first thirty years of the next century. With Britain's arms committed to the struggle against Napoleon, news of the armies of Wellington or great victories at sea became a matter of household consumption. After the war, financial crises, the movement for political reform, the social and economic issues of the new Industrial Society further stimulated readers'

[9] Handover, *Printing in London*, chaps. IV and V. S. H. Steinberg, *Five hundred years of printing* (London, 1955), pp. 162–171.

interest in domestic news, reports of speeches in the House of Commons, and editorial comment.

The newspapers were by no means solely a middle-class institution. There were a good many bread and butter questions for the workers of the new factory system. Working for long hours, receiving pittances for wages, living in unsanitary houses in many towns, the proletariate were deeply conscious of their lack of political rights and of the legal obstacles in the way of forming trade unions. Throughout the country, workers formed radical clubs and associations where they studied the newspapers and debated the issues.

In 1816 William Cobbett revealed the extent of the market among proletarian readers for political discussion of current news. He set out his weekly 16-page *Political Register* as an open letter and reprinted it as a single sheet. Since Cobbett's paper was not subject to the stamp duty, he charged only two pence and brought a newspaper within the reach of every working-class family. Within a few weeks, the *Register* attained a circulation of 40,000. Booksellers, taking advantage of Cobbett's offer of a discount, ordered 1,000 copies at a time. Only the bible had achieved such large sales, and nothing like Cobbett's success in periodical publishing had taken place before. His unstamped paper, which the government was quick to tax out of existence, was the first abortive form of popular journalism.[10]

Technology and the Press

However, newspapers with mass circulation had to await the invention of presses capable of producing in larger quantities at lower prices. Until 1804 no great technological changes had taken place in the printing industry. Furthermore, printers were hostile to innovation. Within a generation, however, the printing trade went through wholescale alterations. Mechanical inventions, revolutionizing all aspects of the industry, increased the output per press and per man hour. At the same time, the costs of production were reduced. The traditional wooden printing press used from Gutenberg until the end of the eighteenth century had printed 250 sheets an hour on both sides of the paper. However, the steam printing press installed by John Walter, chief proprietor of *The Times* in 1814, could produce 1,000 sheets on one side every hour. The result was an increase of more than twice the number of copies.

The Times continued to lead the technological advance in the printing industry during the next 50 years. John Walter III displayed the Applegarth-Cowper eight-feeder press which could print 8,000 sheets an hour on one side at the Great Exhibition of 1851. During the next decade the management experimented with curved stereotypes. And in 1866 the first machine for printing both sides of sheets by means of cylinders carrying curved stereotypes was designed and built at Printing House Square. Fifty years after the wooden hand press was still in general use, the Walter Press, manned by only three printers, could produce 12,000 eight-page sections an hour. Such web-perfecting presses, when operated in conjunction with new machines for mechanical composing, enabled publishers by the end of the century to obtain circulation in the millions.[11]

[10] Handover, *Printing in London*, p. 155.

[11] *The History of "The Times"* (London, 1939), vol. I, chap. VII; vol. II, chap. XVII.

The New Journalism

The faster presses of the 1880's gave rise to new methods of news reporting, editorial writing, and extensive innovations in typography. Sensational, sentimental articles, tersely written in the simplest style aimed at attracting both the sophisticated and worldly and the unskilled and gullible reader. The publisher's interest was higher sales. He strove for novelty and variety and assumed no responsibility for the truth of what he printed. To reach the new market George Newnes launched *Titbits from all the Most Interesting Books, Periodicals and Newspapers of the World* in 1881. Short articles were printed in larger type, and pages were broken up. For news *Titbits* concentrated on homely humor, sensationalism, and scandal. Typical articles were "The Man under the Bed," "A Consultation while Bathing," "Her Mother Knew."

The publisher who applied the yellow journalism of the United States to the English press was Alfred Harmsworth, later Lord Northcliffe. In the *Daily Mail*, which he founded with his brother in 1896, he cut news stories to the barest minimum. He overturned the traditions of the press. Flooding the *Daily Mail* with advertising, he made it independent of reader sales. Moreover, he set out to direct public opinion with propaganda. To be sure, Harmsworth preserved the integrity of *The Times* after he acquired control in 1908. But his contribution to publishing was to convert the literary, politically influential press of the first half of the nineteenth century into a branch of trade.

After Northcliffe, the competition for circulation and advertising resulted in the concentration of English newspapers. The building of press monopolies has continued until four out of five newspapers have come under the control of three publishing trusts. The present trend toward concentration in the press doubtless arises from two immediate problems: the unprofitability of cheap newspapers with circulation below two million and the determination of successful publishers to provide full employment throughout the entire week for their own costly printing machinery. Enormous capital investment, the necessity to keep the presses employed, the drive for mass circulation without which publishers cannot attract advertisers have transformed the newspapers into big business.

Both P. M. Handover and Louis Dudek trace the history of technological and typographical innovation in printing from the days of the simple wooden presses used by the holders of book monopolies. Miss Handover's book has three main divisions: three chapters describe the book trade in the sixteenth and seventeenth centuries, another three are a history of the periodical press from the sixteenth century to modern times, and two concluding chapters cover jobbing and the decline of book printing in London. Her treatment of the economic history of printing is perforce superficial. The emphasis of the book lies with the technical aspects of the trade. Indeed the scope is so extensive that it is impossible for the author to fulfill her intentions satisfactorily within a single volume.

Miss Handover, who originally gave the chapters of her book as lectures, never adequately reworked the material. The book, therefore, tends to be superficial and reveals lack of attention to details. Although the

author has used secondary sources almost entirely, she has drawn on recent and sound scholarship. The lectures were intended for young people entering the trade whether in publishing, journalism, or the printing crafts. And it is for this audience or, indeed, for anyone wanting an introduction to printing that Miss Handover's book is most useful.

Mr. Dudek's book is a history of printing and publishing processes largely in England and to a lesser extent in the United States. But it is also a polemic on the relation of technology to the economic structure of publishing. The author is anxious to reveal to his readers the crass motivations of the press monopolies and the sinister shadow of mass circulation cast over the editors. Though his intentions are honorable, Dudek falls far short of his goals. In part, the author's failure stems from the amorphous nature of his book. *Literature and the Press* is either three books compressed into one or a number of articles and lectures stretched into a patchwork volume.

The major part, which ought to have been a book by itself, is a history of printing. Dudek displays a vast quantity of historical information drawn from sources which, to a large degree, have been superseded by more recent work. There is no indication that the author used the articles of Graham Pollard or Cyprian Blagden on the history of printing before the Industrial Revolution. Such standard works as Ellic Howe's *The London Compositor* or the more recent *The House of Cassell* by Simon Nowell-Smith are missing.[12]

Two further sections follow the history of printing. The first is a lengthy lamentation over the cultural havoc wrought by mass-circulation newspapers. The author is revolted by the excessive sensationalism and advertising of daily newspapers. Confronted with that literary harpy of our age, the digest magazine, he turns for solace to the "little magazines" and *avant garde* journals. But the author doubts that reviews like T. S. Eliot's *Horizon*, the famous *Little Review*, or *Partisan Review* can counterbalance the devastating effect of mass-circulation periodicals. Finally, Dudek finishes off his book with three essays which have no direct relation with the rest of the book. Here he treats Dickens, Thackeray, and Carlyle as symbolic of three possible attitudes which a writer may adopt to popular success as opposed to literary integrity.

No matter what the weaknesses of this book may be, however, the author asks some of the right questions. He makes his contribution by pointing out the areas in which the historian is uninformed. He asks what the relation of technology has been to the economics of the printing industry? What kind of literary standards and independent political criticism can a national press maintain under conditions of mass circulation, monopolistic organization, and the dependence of the press upon advertising for profit? To what extent is the quality of periodicals and books printed determined by cultural goals or by the capacity of the presses to print for any astronomical circulation? The author points to the low level to which the popular press fell after the development of the web press and linotype machines. In contrast, he emphasizes the higher literary standards and political independence of the early nineteenth-

[12] Ellic Howe, *The London Compositor, 1785–1800* (London, 1947); Simon Nowell-Smith, *The House of Cassell, 1848–1958* (London, 1958).

century newspapers before the advent of mass-circulation periodicals. From this he draws the conclusion that the literature predominant in any period depends directly on technology and economics.

Dudek, himself, can provide no exact answers to the problems he raises, and, indeed, there are none to date. As yet there are no adequate studies of the financing of modern fast-printing presses or the relation of advertising to the editorial and news policies of the large popular daily papers. For *The Times* there is William Bowman's *The Story of "The Times,"* a highly laudatory chronicle, *The History of "The Times"* published in four volumes between 1939 and 1952, and *Printing "The Times" since 1785* which appeared in 1953.[13] *The Times*, however, is the antithesis of the modern journalism with which Mr. Dudek is concerned. A full-scale economic history of the English press or the book trade has yet to be written, and studies of other newspapers must be made before more qualified answers are available for Mr. Dudek's queries.

The Victorian Publisher

The first generation of nineteenth-century publishers in England produced speculators who spotted the potential market for books. They handsomely rewarded literary talent and sought works which would sell widely. Archibald Constable was such a publisher. He established the *Edinburgh Review* in 1802, published Scott's *Marmion* and *Waverley*, and brought out the *Encyclopaedia Britannica*. With his contemporary, John Murray II, he revolutionized the publishers' attitude toward authors. A century earlier booksellers and printers had paid writers paltry sums for their work. Gentlemen either refused payment or declined to admit that they accepted money for writing. Both Constable and Murray were open-handed, paid high prices for manuscripts, and were prepared to advance money for unfinished work. John Murray II paid £600 for the first two cantos of *Childe Harold* and £2,000 for the third canto. Some idea of the enterprise and extensive projects of these pioneer publishers is revealed by Constable's £250,000 in outstanding debts when calamity overtook him in the financial crisis of 1826.

In 1825 Constable confided to Scott "Literary genius may, or may not, have done its best; but the trade are in the cradle." He went on to disclose his project of producing for a mass market: [14]

> I have now settled my outline of operations — a three-shilling or half-crown volume every month, which must and shall sell, not by thousands or tens of thousands, but by hundreds of thousands — ay, by millions! Twelve volumes in the year, a halfpenny of profit upon every copy of which will make me richer than the possession of all the copyrights of all the quartos that ever were, or will be, hot-pressed! — twelve volumes, so good that millions must wish to have them. . . .

After his financial vicissitudes of 1826, Constable ultimately realized his project in the Miscellany of Original and Selected Publications. He

[13] William Dodgson Bowman, *The Story of "The Times"* (London, 1931); *The History of "The Times"* (London, 1939–1952) 4 vols.; *Printing "The Times" since 1785* (London, 1953). The latter is largely a history of typographical innovations.

[14] J. G. Lockhart, *Narrative of the Life of Sir Walter Scott* (London, 1906), pp. 463–464.

intended to produce both reprints of popular works and original treatises in literature, science, and the arts. The first number came out in 1826, and thereafter the series continued until 1835 when it comprised 80 volumes. At first the price was 3s.6d. However, the success of a rival series, the Cabinet Cyclopaedia, induced Constable to introduce a higher-quality edition in 1832 at 5s. He was followed into the field almost immediately by other publishers. In 1829 John Murray began his Family Library. Within a few years Longmans introduced Lardner's Cabinet Cyclopaedia which continued for 20 years and 132 volumes.

Richard Bentley whose publishing firm is the subject of Mr. Gettmann's book, *A Victorian Publisher* was one of the unsuccessful competitors of Constable in the publication of series. The National Library, launched in 1837, was severely reviewed by the critics, and the Juvenile Library, which lasted only three numbers, was a complete fiasco. But these ventures belonged to the earlier phase of Bentley's career. He had gone into the printing trade with his brother in 1819. Ten years later he entered into partnership as a publisher with the irascible Henry Colburn, who had gone deeply into debt in the 1826 crash. After three unhappy and costly years, Bentley parted with Colburn and set up for himself. To the period of the partnership, however, belongs the establishment of another and highly successful series: The Standard Novel was begun in 1831 and flourished for the next 23 years and 126 volumes.

Unlike most histories of publishing houses, *A Victorian Publisher* is not merely a chronicle of the firm and a roll of books. It is a functional study of the working methods of a nineteenth-century publisher. The author has devoted chapters to advertising, publishing economics, author's agreements and payments, the influence of publishing standards on literary quality, the publisher's reader, and the three-decker novel. But in no way can the book be described as an economic history of the House of Bentley. An initial chapter of a dozen pages records the biographical details of the firm. However, there is no account of the firm's growth, prosperity, and decline. Perhaps no decay may have taken place by the firm's dissolution in 1898. Richard Bentley's son Richard II chose retirement and sold the firm to Messrs. Macmillan for a trifling £8,000.

In a very good chapter "Work of Art or Article of Commerce," Mr. Gettmann comes close to Mr. Dudek's fears of poor taste and mediocre standards in modern literature. But he can find three arguments for the publication of works of indifferent quality. The first is that middling books sell better. Gettmann, himself, rejects this justification on the basis of the number of failures in this class. The second argument is the educative value of inferior works. Readers will move on to an appreciation of masterpieces from shabby novels and second-rate biographies. The third reason is that writers of genius can learn and borrow from the works of less well-endowed colleagues. Mr. Gettmann's contentions are not very persuasive, and he fails to give satisfying observations on the problems of modern publishing posed by Mr. Dudek.

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FORTUNE'S MERRY WHEEL: THE LOTTERY IN AMERICA. ***By John Samuel Ezell. Cambridge, Harvard University Press, 1960. Pp. viii + 331. $6.75.***

Reviewed by Harvey Wish
Western Reserve University

Americans, too, patronize lotteries and endure the whims of Lady Luck despite twinges of conscience. Horatio Alger had gone beyond the virtues of pluck and daring to make the rags-to-riches cycle turn upon some happy but wholly unexpected incident. His heroes saved young heiresses and became junior partners in Wall Street firms. Although Congress, the Post Office, and most state legislatures have long conspired to outlaw lotteries as a road to riches, many thousands still pursue the elusive pot of gold behind the neon lights of Las Vegas or the treasure in the furtive policy racket. Abroad, the Latin Americans and the Soviet citizens (by compulsion) enjoy their government's blessing as they cling to their pasteboard chances on an earthly paradise.

The lottery games arrived here with ample Old World sanctions, met only token resistance from certain Puritans and Quakers, and proved ideal in a wilderness world where currency was in short supply and large commodities were difficult to dispose of. While serious-minded merchants worried about the too-great expectations of the poor, the neglect of work, and their tendency to loiter around the taverns where the lotteries were held, most citizens, even the clergy, approved this type of gambling. George Washington, the wealthiest colonial citizen, patronized the lotteries and so did other distinguished people as well as the humbler folk. Debt-burdened governments eagerly resorted to this device as a simple solution to fiscal problems and so did the churches and the colleges. When colonists fought the Indians or faced a French attack, they often drew upon the trusty lottery for financing. Not the least of the irritants that severed the colonies from the Mother country was the effort of the Crown to curb lotteries.

Independent America also used the lottery for both mass entertainment and budget-balancing; and even Congress resorted to it whenever expedient. While all lotteries did not succeed in raising the funds needed for schools, roads, bridges, and other public enterprises, they managed rather well to attain their objectives and enjoyed tremendous popularity during 1789 to 1830. In a nation without a hereditary ruling class, the lottery offered an exciting chance to the humblest citizen for a quick short-cut to the top. Slaves could buy their freedom with the proceeds of a large winning ticket. Large spectacular lotteries financed the costly roads and canals so much needed in a new expanding country.

But the ante-bellum reformers saw the dangers and ugliness behind this huge public and private business which could net up to $2,000 a day in sales even as a sideline to such pushing entrepreneurs as P. T. Barnum. Even laws did not prevent gross abuses, embezzlements, and exposés leading to suicide, and lottery conditions conducive to crime. The burden fell on those least able to afford it. England's abolition of lotteries in 1826 spurred on a long battle here against these gambling devices. By 1895, when President Cleveland finally signed a bill outlawing the lottery, some 35 states had already banned it.

The author, Dr. John S. Ezell, points out that a study of 1,300 legal lotteries in this country proves that they cost more than they brought in, if one considers their total impact on society. Fraud was practically a built-in weakness. Yet even in 1955, a New York congressman — and a Republican at that — argued that the federal government could earn painlessly and honorably at least $10 billion by a national lottery. And by then many churches were restive beneath the legal restraints on bingo, raffles, and lotteries.

Dr. Ezell has brilliantly explored a vast array of original sources to reconstruct the neglected story of the lottery in America since colonial times. He combines considerable detail gathered painstakingly with sound interpretation "to show the forces that produced the lottery, why it came to America, its impact upon American life, why it declined, and what its future may be." His style is vigorous and interesting and he proves that his subject is anything but trivial.

* * *

THE SUN INSURANCE OFFICE: 1710–1960. ***By P. G. M. Dickson. London, Oxford University Press, 1960. Pp. 324. $7.20.***

Reviewed by Harris Proschansky
New York, New York

Growth has often been a fascinating and exciting phenomenon to behold, whether of a child, a nation, an institution, or a business. A case in point is the experience of the Sun Insurance Office of London, which boasts the proud distinction of being the oldest independent insurance company in the world. Founded in 1708 by a visionary and eccentric named Charles Povey, the company changed its name to the Sun Fire Office in 1710 when a group of 25 businessmen took it over, and to its present name of the Sun Insurance Office in 1891. It played a significant role in the rise and development of British fire (and later accident) insurance; its growth is indissolubly linked with the burgeoning of British commercial enterprise in general.

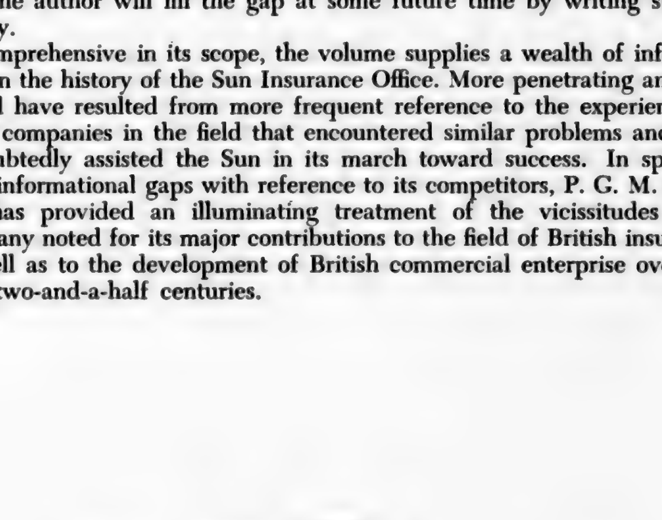
Building upon the limited experience of earlier pioneers and avoiding some of their costly mistakes, the Sun found its period of infancy, as in the case of other British fire insurance companies, to be the period of greatest danger. Because of the modest scope of the insurance it provided, it had a relatively simple framework in its initial stages. How the company extended its field of operations to embrace both country towns as well as metropolitan areas, overseas territories as well as Great Britain, and how its agency network expanded concomitantly, is described in lucid and interesting fashion in the pages of this volume. Its internal growth, as evidenced by the increasing complexity and efficiency of its organizational structure, is dramatically portrayed against the backdrop of experimentation, trial and error, and intelligent adaptation. That it had its fair share of failure and frustration is not glossed over by the author, who demonstrates that the course of true growth, like that of true love, often does not run smooth.

Recoiling from the excesses of competition, especially those flowing from the actions of newly formed companies in the field, the Sun and

other leading British fire insurance companies began to cooperate on measures of mutual interest in the period 1830–1860. Uneasy as this cooperation was at times, it emerged as a constructive and enduring force enabling the more reputable concerns to stabilize the business and prevent the excesses of ruinous competition.

Designed as a supplement to fire insurance, the Sun Life Assurance Society was founded in 1810. While both companies were legally distinct, the identity of membership in their board of directors served as the real link. Developing independently of the older company, Sun Life has become a leading company in its own field, and its assets have come to surpass those of its sister concern. It is unfortunate that the volume does not contain a history, however brief, of Sun Life, and it is to be hoped that the author will fill the gap at some future time by writing such a history.

Comprehensive in its scope, the volume supplies a wealth of information on the history of the Sun Insurance Office. More penetrating analysis would have resulted from more frequent reference to the experience of other companies in the field that encountered similar problems and that undoubtedly assisted the Sun in its march toward success. In spite of such informational gaps with reference to its competitors, P. G. M. Dickson has provided an illuminating treatment of the vicissitudes of a company noted for its major contributions to the field of British insurance as well as to the development of British commercial enterprise over the past two-and-a-half centuries.



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BOOK REVIEWS

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By Joseph A. Litterer
ASSISTANT PROFESSOR OF MANAGEMENT
AT UNIVERSITY OF ILLINOIS

Systematic Management: The Search for Order and Integration*

A comparative examination of late nineteenth-century worker productivity, machine utilization, and management methodology reveals the importance of process-oriented organization in American factories, where the highest technical skills were directed not at making products, as in Europe, but at making production lines. This orientation, together with a rapidly changing environment, required a particular kind of management and a new awareness of the management function.

The decades preceding the turn of the century, but following the Civil War, cover a period of great importance for the student of American Management. These were the decades of enormous growth and development for American industry during which many problems of management arose and, to some degree, were solved. Also, the latter decades of this period were the formative years of Frederick Taylor [1] and others whose work in the Scientific Management movement gained such prominence and influence after the turn of the century. From the issues, conditions, and thinking of this period, he and the other creators of the literature of scientific management doubtless received stimulus and direction.

This article directs itself to the problems and issues of internal administration of industrial firms written about by businessmen, engineers, consultants and others who were intimately acquainted with the industrial world between 1870 and 1900. The particular literature studied was largely that directed to, and drawing from, the manufacturing sphere of the economy of the United States, particularly metalworking where companies were making such things as machine tools, industrial equipment, bicycles, firearms and cash registers, to name a few. When appropriate, contemporary literature from other countries or areas was drawn upon.

* This paper is drawn from Joseph A. Litterer, "The Emergence of Systematic Management As Shown by the Literature of Management from 1870–1900" (Ph.D. Thesis, University of Illinois, Urbana, 1959).

[1] Taylor's first piece on Management, "A Piece Rate System," appeared in the *Transactions of the American Society of Mechanical Engineers* in 1895. A second and broader work entitled "Shop Management" appeared in the same journal in 1903.

The authors of this literature studied and looked at a portion of the business world containing firms which were growing from small or medium-sized, owner-managed firms to larger, more complex operations. Due to the nature of this industry, the firms depended to a considerable extent for success upon the design of products and their manufacturing abilities. For the most part these authors wrote from an operating point of view about the problems and practices of business at the moment. A few would occasionally draw back from the concerns of the day and write of more fundamental issues. In this article some of the problems and issues discussed by these authors will be examined and a search made for some common or underlying themes. A knowledge of the problems with which businessmen of this era thought themselves faced should be a useful background for the study of the practices of internal administration developed during this and later periods.

The High Wage-Low Cost Controversy

Before beginning a close examination of specific managerial problems and practices of this period, however, it will be helpful to review some of the characteristics of the management of metalworking firms to be found then. Fortunately for the student of this period, there occurred at this time a discussion in the literature which might be called the High Wage-Low Cost Controversy and which as a useful by-product revealed some characteristics of the management of firms in the manufacturing industry.

The comparison of wage rates between countries has frequently been a favorite occupation of economists and businessmen, and was so during the period under study. There were frequent references in the literature to the comparatively higher wage rates in the United States, and to some writers these higher wage rates posed a serious economic problem. One who looked with concern on high American wages was William Evarts, at that time Secretary of State. Evarts had American consuls abroad gather data on wages paid to workers in the countries to which they were assigned. In industry after industry American workers were found to be better paid than their European counterparts, sometimes by surprisingly large margins. Looking at the improvements in shipping between Europe and America as eliminating the distance barrier that enabled American wages to get so high in the first place, Evarts reasoned that foreign competition, with its cheap labor, would, when shipping charges became low enough, be able to flood America with prod-

ucts. He advised a general reduction in wages and concluded, "In the near future the working man of New York cannot expect twice or thrice the wages of his fellow-worker in Europe."[2]

Evarts' point was immediately challenged. The *American Machinist* pointed out that his report ignored the very important fact that contrary to Evarts' fears the reverse was occurring in that American products, produced with high wages and in spite of the shipping expenses, were invading a number of European markets.[3]

Others who had probed more deeply into the matter uncovered the fact that in many situations high wage rates were accompanied not with high per unit costs, as Evarts and others feared, but instead were associated with low costs, and further that the reverse was true – low wages accompanied by high costs.[4] Schoenhof, for example, found this to be true in his studies of the relationship between wages and costs in coal mining, wool spinning, pig iron, and nail making. In nail making, for example, Schoenhof showed that in Worcestershire, England, nail makers average \$3.87 a week, while those in Pittsburgh make \$30.00 a week. At the same time, the cost of ten penny nails was \$0.16 a keg in the United States and \$0.32 a keg in Britain.[5]

In his own analysis, Schloss pointed out that Schoenhof had taken illustrations from not only mechanized industries (textiles and nail making), but also industries which were largely unmechanized at that time (coal mining and pig iron manufacture) and still found the relationship between high wages and low cost to exist.[6]

This last point, that high productivity, as measured by low per unit costs, could result not only from mechanization but also from other factors, was a topic which occurred with increased frequency in the literature studied. The question of how to achieve low costs from high wages was a frequent one of the time, and this point seemed to indicate an important path to follow for an answer. Variously identified, these other factors were usually some aspect of the skill with which the managerial function was executed. This point of view was reflected by Atkinson when he concluded, "Thus, the difference in management will alter results in the same place, at the same time, in the use of similar machinery."[7]

[2] As quoted in "The Low Wages 'Boom'," *American Machinist*, vol. 2 (Aug. 30, 1879), p. 8.

[3] *Ibid.*

[4] Among notable earlier studies were those of Nassau William Senior, *Three Lectures on the Rate of Wages* (London, 1830), particularly pp. 11–15, and Thomas Brassey, *Work and Wages* (New York, 1872), particularly pp. 116–121.

[5] J. Schoenhof, *The Economy of High Wages* (New York, 1893), pp. 22–25, 217, 225–226.

[6] David F. Schloss, "The Dearness of 'Cheap' Labor," *Engineering Magazine*, vol. 5 (1893), p. 41.

[7] Edward Atkinson, *The Distribution of Products* (New York, 1885), p. 62.

The nature of some of these general "differences in management" between the conduct of manufacturing businesses in this country and similar businesses in Europe is the topic of the first part of this article. A more detailed examination of some of the particular problems and solutions arising in part from these previously discussed managerial practices will be considered in the latter portion.

The literature which compared American and European productive methods fell generally into three broad areas: workers and their productivity, the use of machinery, and the general organization of the business.

Workers and Their Productivity

Generally speaking, outside of a few specialized industries such as textiles, iron and steel refining, etc., European workers were trained and used on a craftsmen basis, where the worker could do or make anything that fell within the general province of his craft. Orcutt pointed out that a machinist was expected to, could, and did make a simple farm implement or a locomotive and just about every type of metal implement in between.[8] In the United States this had been the case, but was rather markedly changed during the period after the Civil War. Gradually American industry developed an arrangement where the most skilled workers did the most exacting work, while the less demanding work was relegated to the less skilled. There developed, in short, a division of labor based upon skill, in addition to the division of labor according to task that already existed and had been so well described by Adam Smith and others. Skilled machinists might be paid more in the United States, but they were much more likely to be used only on the work that needed their skill, while in Europe the skilled machinist would often make parts that would be made by lower paid employees in the United States.[9] To accomplish this division of labor, it was necessary to analyze the work to be done, subdivide it according to operation and skill required, appraise the skill and ability of workers, and assign them to the proper task. This planning considerably increased the burdens of management. With work divided – and only a few people able to see the complete project – it was more difficult for management to tie things together and make the plan work.

[8] H. F. L. Orcutt, "Machine Shop Management in Europe and America. VI. Comparisons as to Efficiency and Methods," *Engineering Magazine*, vol. 17 (June, 1899), p. 384.

[9] H. F. L. Orcutt, "Machine Shop Management in Europe and America. II. Labor Saving Machinery and Low-Wage Workers," *Engineering Magazine*, vol. 16 (Feb., 1899), p. 706.

Brentano more or less implied that the selection of workers was forced on manufacturers by high wages. His argument, in brief, was that as wages went up, there gradually developed a discrimination that separated the less competent from the skilled and would naturally tend to put labor to its best possible use.[10]

The Use of Machinery

In spite of the fact that the value of machinery in manufacturing had been dramatically demonstrated since the beginning of the industrial revolution, the potentiality of machinery and means to achieve that potentiality seem to have been developed further in the United States than in Europe. At least the literature is filled with observations by both Americans and Europeans that the latter were behind the former in the use of machinery.

The essential idea followed by the Americans was that the more machine work could replace human labor the better, regardless of whether the substitution meant replacing hand labor by machinery or reducing the amount of labor involved in operating a machine.[11] The idea was expressed by Atkinson as, "It follows that the nation which had diminished the quantity of human labor in greatest measure by the application of machinery produces goods at the lowest cost. . . ."[12]

One of the factors involved in the slow acceptance of labor saving machinery by European manufacturers was that they tended not to utilize the machinery they did have to its full potentiality. The American practice was to use whatever tools or processes were available to work parts as close to tolerance as possible, and to use hand labor only when these facilities could not take the work to the tolerance necessary. The European approach, on the other hand, was to use machines and processes to get material in rough form so that it could be worked on by hand labor.[13] The result was that it might cost twice as much to have a part made in a French factory, for example, than in an American one.[14]

The second aspect of this difference was that when the European machinist worked a part down to size, the final size was determined by the part to which it was going to fit. The two parts would fit well together, but would most likely deviate from the dimension

[10] Lujo Brentano, *Wages and Hours* (London, 1894), particularly pp. 50–53, 60–61.
[11] *Ibid.*, pp. 50–53.
[12] Atkinson, *The Distribution of Products*, p. 56.
[13] Orcutt, *Engineering Magazine*, vol. 16, pp. 703–704.
[14] W. D. Forbes, "European vs. American Machine Shops," *American Machinist*, vol. 14 (March 19, 1891), p. 1.

called for, so that if they were separated and put into different machines, they probably would not fit in this new location. In short, interchangeability of parts made possible by making parts to within close tolerance of standard dimensions did not exist in a large part of European industry. Its significance as a concept did not seem to be widely recognized, and micrometers and gauges necessary for close measurements to make standard parts did not seem to be in general use.[15]

These comments, however, were directed toward the use of general purpose machines. Another difference found between practice on the two sides of the Atlantic was the use of special machinery to do specific, limited tasks.[16] The fact that standardized and specialized machinery ". . . derives its advantage from two circumstances: i.e., it will produce more in a given time than can be done with a standard machine tool and can be operated by men trained for that one thing only, and without all around mechanical training . . ."[17] was recognized in numerous articles in this country. Foreign observers coming to this country were frequently quite impressed with such an approach. A French observer who had seen a machine specifically designed to sharpen tools, a thing each machinist did for himself in Europe, was led to comment, "I believe the profits are made not in manufacturing proper but in the saving of materials and labor by close attention to details that are with us considered trifles."[18]

The Use of Resources on the Highest Productive Level

It should be emphasized that the difference noted here in the literature was not in the technical aspects of making things. The skill and knowledge of Europeans on this point was the equal and sometimes the superior of that of Americans. The difference was in how this technical knowledge and skill was used. The European manufacturer used it to make a product: the American manufacturer used it to make a process for making a product.[19] A high-class machinist in Europe could be found making the product his company produced; his American counterpart could be found setting up a semiautomatic machine for less skilled labor to operate

[15] *Ibid.*
[16] James Arthur, "American and British Workmen," *American Machinist*, vol. 15 (Nov. 24, 1892), p. 3.
[17] *American Machinist*, vol. 20 (Oct. 28, 1897), p. 820.
[18] "A French Engineer on American Machine Shop Management," *American Machinist*, vol. 21 (Jan. 20, 1898), p. 45.
[19] Orcutt, *Engineering Magazine*, vol. 17, p. 384.

to make the product, or he might be engaged in making the semi-automatic machine with which to make the product. The literature of the time frequently mentioned that American machines and tools were superior to the European. This, however, should be understood to reflect not a difference in abilities as much as a difference in the thinking of European and American managements. One appreciated the importance of, and understood how to obtain, the advantage from machinery; the other did not.

Not all American firms fell into this category, however. Some, thinking that the superiority lay in the machines themselves, attempted to capitalize on the cheaper European labor by building duplicates of their American factories in Europe and staffing them with local personnel. The result was an unprofitable operation.[20] It was estimated by some who had worked in factories on both sides of the Atlantic that American machine tools produced 10 to 30 per cent less in European factories.[21]

The Limited Product Line

The third general area of difference noted and commented upon, in the literature of this period, was that some American firms had become increasingly specialized in the product they were manufacturing. At one time, a metalworking factory would be willing to make pumps, steam engines, farm implements, tools, locomotives, in brief, just about anything in metal that their craftsmen could handle. By the end of the Civil War a number of specialized manufacturers emerged who made just pumps, or locomotives, or machine tools. During the next few decades this specialization of product increased to where firms were making just one type of a general product, as one type of pump, or just lathes instead of a general line of machine tools. By the end of the nineteenth century specialization had been carried to the point where some firms were making just chucks for lathes. Similar high levels of specialization could be found in a number of product areas.

This product specialization did not go unnoticed by those comparing American and European industry. The advantages of being able to use specialized equipment, of subdividing labor, the ease of training workers to a high level of skill in a narrow specialty, the

[20] A. E. Outerbridge, Jr., "The Future of American Industries," *Journal of the Franklin Institute*, vol. 143 (1897), p. 110.
[21] Orcutt, *Engineering Magazine*, vol. 17, p. 387.

ability of the firm to become *the* expert in a specific area and thereby to enhance its reputation and ability to operate successfully, and also to some degree the pitfalls of overspecialization were discussed on both sides of the Atlantic. Comments were usually made that this was a phenomenon which existed in the United States and not in Europe, to the latter's disadvantage.[22]

SYNTHESIS

This comparison in the literature of American and European manufacturing enterprises isolated a number of distinctive features which were not of a technical or financial nature, which seemed to explain in part the ability of American industry to handle certain higher costs and still produce items at lower costs. From various points of view an understanding of four types of specialization emerged; that of process, product, skill, and task or operation. These four types were used singly and in combination in the design of jobs and machinery.

In order to carry out this more extended division of labor, develop more specialized equipment, and handle larger volumes of production within more restricted product lines, executives had to be more aware of and more skilled in the exercise of the managerial function. The fundamental managerial techniques mentioned above required other practices to support and supplement them. To achieve the full advantages of specialization, means had also to be provided for coordinating the efforts of workers on specialized jobs, making sure that material moved from one to another efficiently, and that the specialized parts worked as an efficient whole. Depending upon the type of specialization and the degree to which it was carried, these problems varied, but they existed in any event. It is to the problems raised in defining and developing these supplemental and supportive managerial practices that attention is given in the next section of the article. For this we turn from that portion of the literature dealing with intercountry comparisons to another which deals more directly with the American managerial practices and problems of this period.

[22] For examples of comments, see:
H. F. L. Orcutt, "Machine Shop Management in Europe and America. I. Specialization vs. Generalization of Equipment and Product," *Engineering Magazine*, vol. 16 (Jan., 1899), p. 549.
Hans Renolds, "American Machine Shops," *The Mechanical World*, Oct. 30, 1891.
Joseph Shepherd, "Modern Machine Tools," *Engineering Magazine*, vol. 17 (1899), p. 297.

Problems Born of Prosperity

In looking over the business scene before them, a number of writers, during the period under study, commented on the changes taking place in American business management. J. Slater Lewis in 1899 wrote: [23]

> The present is a time of transition under the stimulus of a wave of remarkable prosperity. Old-fashioned methods of administration are beginning to show signs of wearing out and of being no longer equal to the strain and intensity of modern industrial working. Very searching questions are, consequently, frequently asked as to the probable direction in which reorganization is required.

To continue this study of the problems before American management during the period, it would then be well to review some of the conditions of the "wave of remarkable prosperity."

Increase in Size of Firms and the Problems of a Managerial Hierarchy

One of the effects of this general period of prosperity seems to have been a general increase in the size of firms. Many of the discussions of problems or of managerial techniques and procedures are conducted against a background of the expanding firm. Firms would grow to the point where the owner-manager could no longer be in contact with all phases of buying, manufacturing, selling, and engineering. Of necessity, subordinate managers were hired and the work of the firm conducted through them. The creation of a managerial hierarchy made a larger company possible, but also generated a host of problems. Along with growing awareness of the need for a managerial hierarchy there came an equal awareness that the success of the firm depended upon the merits of the managers and the effectiveness with which they conducted their affairs.

> It would seem, at first thought, that a manufacturing plant that adds to the number of producers employed without adding to the number of non-producers ought to make more profit per individual than before. . . . The idea may be correct, but the increase of force very often yields less profit per employee than with a few number.
>
> Sometimes, when an increase of force is made, the old hands seem to lose part of their productiveness, even with the same kind of management. When but a few hands are employed, the proprietor can hold closer, personal relations with each worker, which fact makes itself felt in the success

[23] J. Slater Lewis, "Works Management for the Maximum of Production: Organization as a Factor of Output," *Engineering Magazine* (1899), p. 59.

of the business. When the force becomes too large for the proprietor to become acquainted with all workmen, part of the supervisory work must be delegated to careful and reliable superintendents and foremen. Upon the choice of these men and the efficiency of the general management, the question of the greater or less ratio of profits depends.[24]

Many of the writers apparently thought the simplest way to ensure effective performance by the subordinate managers was to have them operate as neutral, machine-like appendages of the top executive. Subordinate managers would execute specific orders, report on results or status of work, leaving all decisions and direction of work to come from the one head of the organization. The following quotation typifies this authoritarian, centralized style of management described in whole or in part in many other articles of the period: [25]

The manager's desk should be the Alpha and Omega of every transaction. It should also be the information bureau of the establishment. No work should be done without the manager's authority and sanction. He should be posted in all things relative to the various stages of the work in operation, and the knowledge should be reliable and easy of access. A large plant requires a more elaborate system than does a small one, but the principle of the one is the principle of the other. In a small shop an order can be issued to its ultimate destination at once, while in a large one it may be desirable to have it pass through the hands of the works manager, superintendent, or stock clerk. . . .

Such was the normative model for the operation of the firm. Results, however, were at variance. With work being handled by many people, who frequently were specialized and restricted to a limited view of the over-all operation, parts were continually being lost, orders going astray, and other oversights occurring which sapped the efficiency of the operation. Metcalf quotes a plant manager as saying: [26]

The trouble is, not in foreseeing necessities, nor in starting the work to meet them; but in constantly running over the back track to see that nothing ordered has been overlooked, and in settling disputes as to whether such and such an order was or was not actually given and received.

With the increase in the size of the firm, there occurred an increase in the amount of detailed information necessary for efficient operation. To complicate the matter further, this information was

[24] "Proportion of Profit to the Number of Workers," *American Machinist*, vol. 9 (Sept. 25, 1886), p. 8.
[25] H. M. Norris, "A Simple and Effective System of Shop Cost-Keeping," *Engineering Magazine*, vol. 16 (1898), p. 385.
[26] Henry Metcalf, "The Shop-Order System of Accounts," *Transactions of the ASME*, vol. 7 (1885), p. 441.

now spread among many people instead of being possessed by one central executive as formerly. Little wonder that orders were mislaid and details overlooked. Arnold was discussing this problem and a general solution when he wrote: [27]

> If all men had absolutely infallible memories, and were incapable of making any statement at variance with those memories, it would be possible, perhaps, to carry on a successful and prosperous manufacturing business without the use of shop books or factory accounts.
>
> Even if entire honesty and sincerity prevailed at all times in all business transactions, the mere differences due to variations in individual understandings of orders would render it impossible to conduct any business of magnitude on verbal specifications.

It was not only information for short-run operations which was of concern, but also the transfer of information between one generation of management and the next. Church stated the general problem in the following way: [28]

> How many concerns languish when the care of their founder is withdrawn and why? Simply because he cannot transfer the multitudinous details of organization from his memory to that of a successor. It is these details that are essential and it is their absence that must be fatal unless their place is supplied anew.

Another author of the period pointed out that the difficulty of transferring information in management succession was not only that necessary information was held by the deceased owner-manager, but also that subordinate department heads would keep information to themselves with a result that: [29]

> The young and ambitious manager who takes the helm of a successful old firm finds at once that he is not to know the details of the factory of his own knowledge. He is to take his information second hand, or go without it. . . . Between a new manager who wants to know, and a force of old heads of departments who do know and will not tell, the board of directors is often called to arbitrate, ...

Awareness of Noncongruent Goals

The problems mentioned above and others, of an essentially operational nature, were difficult enough, but other and more fundamental problems became apparent. When discussing problems or

[27] Horace Lucian Arnold, *The Complete Cost-Keeper* (New York, 1901), p. 9.

[28] Alexander Hamilton Church, "The Meaning of Commercial Organization," *Engineering Magazine*, vol. 20 (1900), p. 395. Note: Church uses the term "organization" in almost the same sense as "management" is used in this study.

[29] Henry Roland (H. L. Arnold), "An Effective System of Finding and Keeping Shop Costs. 1. Simplicity and Sufficiency of the Job Ticket Method," *Engineering Magazine*, vol. 15 (1898), p. 77.

issues involved with the increasing size of the managerial group, the authors of the period usually implicitly assumed that the intent of all subordinate managers was to advance the cause of the company, the only limiting factors being their individual abilities, knowledge, and the way in which they were organized. Some, however, saw that individual and company goals were not always identical or, for that matter, even similar. Arnold, for one, discussed this problem and one of its consequences: [30]

> A business is established, say, in the smallest possible manner, with one master workman of ability at the head of a few others for whom he can find work. The mind of this master, in most ventures which reach final success, is wholly employed in perfecting his output and the means for its production. His accounts are kept in his head . . . and that matter does not seem to him of nearly so much importance as how to better his product and increase his sales, which are problems increasing in importance with every step of advancement in public esteem and confidence. Very soon the "leading hand" appears, the right-hand man who has a memory and executive powers which can be exercised under the direction of another; and the "leading hand" becomes the depository of a mass of unrecorded information not possessed by the owner, and which he is glad not to be obliged to know, as this ignorance leaves his mind free for things of more present importance. As the establishment increases, it divides itself into departments, each practically under the exclusive control of some man whose fitness has gained him the post of authority; and so the natural-selection process goes on, the establishment having never been homogeneous since the day its founder first made a favorite workman "leading hand." As it increases in size, it becomes every day more and more an assemblage of independent powers, operated still, it may be, in thorough harmony to a common end, but on wholly independent lines of management in different departments, and always approaching a point where these independent subordinate managers of either real or recognized authority are secretly or openly jealous of each other, and where each one sees that the less anyone else knows about the actual facts of his department, the better the chances are for his continuance in his position.

Need for Coordination

Going behind these immediate conditions, writers of the period pointed to the over-all problem which affected all businesses. Operations had become large, the work subdivided into many small detailed tasks, and knowledge of what was going on scattered among many people. This resulted in a loss of direction, a decrease in efficiency, and a basic need for much greater coordination of activities and operations. Church aptly summarized the problem when he wrote, "Coordination is the keynote of modern industry.

[30] *Ibid.*, pp. 77–78.

. . . The necessity for coordination . . . is an inevitable result of the evolution of the factory." [31]

Such coordination, writers of the time felt, could be achieved by formalized methods of management, a system which would ensure that everything that had to be done in the operation of a business would be accomplished and in the proper manner. This belief was summarized by Norris when he wrote: [32]

> It is true beyond a shadow of argument that every shop, no matter how small, will produce a greater amount of work and will yield larger yearly income to its owners if conducted upon a systematic basis than if run in the old slipshod way of our forefathers.

The problems and needs of management seen by many writers of this period are well summarized in the following passage: [33]

> It has been said that "System" is the triumph of "Mind Over Matter," and there is no doubt about the truth herein contained; we only get suspicious of the fact when taking a measured survey of the inner workings of some large factories, and gaze sorrowfully at the triumph of *Matter* Over Mind.
>
> I have heard it remarked that in business three things are necessary: knowledge, temper, and time; but I have seen all three prostrate and powerless for want of *method in management*. Such is the evil of working in an unmethodical and slipshod manner, that it is not too much to say results have followed well-nigh ruinous to the concern.
>
> There is no doubt that the subject of Factory Organization has been sadly neglected in past years. That we have not advanced with the order of the times is the complaint I lodge against the doors of many managers. We are working on old systems which have served their day and generation, systems which "have had their day," but unfortunately have not "ceased to be"; for a brief glance at many of them, both great and small, will prove that little or no method is used, and that the concern moves under conditions which are disgraceful: the wonder is how it moves at all. My observations have led me to conclude . . . that the first and foremost want of many of our large factories is not work, but a thorough revision of the machinery that manages and directs the whole concern. It is not a want of brains; it is not the difficulty of working out a vast and complicated scheme; it is not a matter of involving the company in a large outlay of money — it is simply a question of *method*, the application of a few simple rules, and a respect for the time-honored principle that Order is the First Law of the Universe, and the nearer our approach to it the more harmonious will our arrangements work.

Here is the insistent theme found in much of the literature during the period: eliminate confusion, oversight and neglect; coordinate efforts, return firm control to the top people in the organization;

[31] Church, *Engineering Magazine*, vol. 20, pp. 393, 395.
[32] H. M. Norris, "Shop System," *Iron Age*, vol. 54 (Nov. 1, 1894), p. 746.
[33] John Tregoing, *A Treatise on Factory Management* (Lynn, Mass., 1891), p. iii.

accomplish these things through the use of standardized procedures on routing managerial work through "Method" or "System." If we want a term to identify the approach to management revealed in the literature of the day written by businessmen or their close associates, it could well be *Systematic Management*.

It should be noted that although many authors wrote about systems, none spelled out exactly what was included in a system. To some, system meant mostly cost accounting systems. To others, it apparently was mainly production control systems. To most, however, the concept seemed to contain more than these highly specific elements. The common idea appeared to involve an over-all approach to operating a business which had specific jobs for all members of management, those jobs linked by a set of procedures which would ensure all necessary work being done.

It is necessary to make a distinction about the type of managerial task for which systems were being established. Systematic management as discussed at the time seemed to be directed at the internal operations of an established business, particularly at the repetitive managerial tasks in these internal operations. Systematic management was not concerned with the full scope of management. If a common list of managerial functions is considered (i.e., planning, organizing, staffing, directing, and controlling), it is seen to be essentially concerned with some aspects of directing and largely with control.

Administrative Steps to Provide Coordination and Reduce Difficulties

Many proposals were made in the literature on steps to be taken to achieve the desired coordination. No attempt will be made in this article to identify or analyze these proposals in detail. Instead, some of the general directions and common features will be identified and discussed.

A fairly general recognition was made in the literature that much of the work of management consisted of repetitious tasks such as passing on credit, checking on inventories, determining the status of production on an order, collecting cost figures, determining the amount of money to be paid a worker — to name only a few. It was felt that, as a firm grew in size, it could not afford to neglect developing standardized ways of handling these repetitive tasks and then turning them over to specialists to handle.[34]

[34] Oberlin Smith, "Systems in Machine Shops," *American Machinist*, vol. 8 (Oct. 31, 1885), p. 1.

This shift of repetitive tasks to a "system" administered by a specialist could free line executives of much time-consuming work and permit them to devote greater attention to the more demanding aspects of management. This goal was neatly summarized by Lewis when he wrote: [35]

> The real objective of modern organization is to strengthen the administrative arm in its control of routine. . . .

For this specialization of certain aspects of managerial work to succeed, several important elements had to be provided. First among these was a careful organization with a precise definition of managerial duties.

> . . . questions as to the exact scope and limitations of duty exercised by each individual become more important. . . . The first step toward factory organization is the allotment of specific duties not to be exceeded, and not to be neglected, to each official of whatever degree.[36]

It should be noted that this included not only definition of structure, but also of the duties of the various positions.

Secondly, there was a need for procedures to guide the flow of orders, materials, and most important, information. To insure the availability of information, it was necessary to use standard terms for clarity, then establish methods of insuring a flow of information to proper parties, especially a flow of information vertically to the top executives.

> With the growth of competition the necessity for coordination and for an accurate and swift presentation of results is more and more imperative. The margin for waste is less, the necessity for detail greater.
>
> To sum up the principles on which a good system should be based and to enumerate the points that it should embrace is not as easy as it may appear. . . . With this reservation in view, it may be said that no system is satisfactory and complete in the fullest sense that does not provide for the immediate serving up of its results, day by day, as they occur, that does not provide in advance for the progress of every piece of work, and that does not present its cost details interlocked with its general and shop establishment charges. . . .[37]

The third and final requirement, if specialization of management was to succeed, was for competent people to fill the various positions and work loyally for the company, as mentioned earlier.

[35] Lewis, *Engineering Magazine*, vol. 18, p. 62. Note: Lewis uses the term "organization" in almost the same sense that "management" is used in this study.
[36] Arnold, *The Complete Cost-Keeper*, p. 10.
[37] Norris, *Engineering Magazine*, vol. 16, p. 385.

Summary

In the three decades following the Civil War, manufacturing firms were faced with a great number of changing factors. The economy around them was growing rapidly; new products were introduced; the export market for manufactured goods increased greatly; many firms reduced their product lines, distributed their more limited selection of goods over a much greater geographical area, and enormously increased the quantity of items sold. Keeping in step with the times, many firms increased greatly in size and also carried the specialization of work much further than previously. These steps were not without disadvantage, since the literature of the period makes reference to the omission or loss of orders and work in the plant, the duplication of effort, and other factors which contributed to a somewhat confused and chaotic state in the internal operation of many firms. In addition to the factors of size and specialization mentioned above, various authors of the period pointed to the lack of information on all levels of the organization, the burden of repetitive tasks on the managerial personnel, the general limitations of people, and the particular difficulties involved in management succession as factors which created a great need for some means of providing coordination within the firm.

Many specific measures for improving conditions were suggested. Some of the more general suggestions advanced were concerned with operating an existing organization in a way to accomplish existing plans and objectives. Perhaps the most common of these approaches was that which can be called "Systematic Management," and which was basically concerned with the managerial functions of directing and controlling, but not with other such functions as planning, organizing, or facilitating. Systematic management was basically concerned with making sure that the work which had to be done would be accomplished on time, and with as little duplication of effort or confusion as possible. This was to be done by supplying administrative machinery to assist in certain parts of the managerial function.

The systems suggested in the literature reflect an attempt to determine, by creating standardized ways of performing managerial tasks, what work had to be done in the proper conduct of a firm's activities. Such efforts usually included attempts to provide specific and accurately defined jobs for all members of management, linked by a set of procedures to guide the flow of information, orders, and material which would insure all necessary work being done to achieve stated objectives.

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The Little Businessman: A Study of Business Proprietors in Poughkeepsie, New York

¶ This cross-sectional study of small business tests conventional assumptions regarding backgrounds, motivation, characteristics, function, risks, and longevity, proving many of those assumptions to be imprecise or false. Quantification in historical depth reveals definite patterns both of fixity and change.

The little businessman has been endowed with special virtues in our concept of the "American way of life." He represents the industry and thrift that are a part of the Protestant ethic, and he symbolizes also the survival of the fittest in competitive private enterprise. In addition, he is regarded by many as the independent, conservative citizen who provides a stable element in our electorate. Wendell B. Barnes, Administrator for the Small Business Administration, recently stated that: "Freedom of the individual cannot be taken away from citizens of a country which has hundreds of thousands of small business owners, trained in independent thinking and action as the operators of their own establishments." [1]

This point of view has sometimes been challenged. Another commentator on business problems has stated that "the majority of small businesses are not worthy of anyone's attention, far less of efforts to assist or save them." [2] But we do, in fact, attempt to assist small business through antitrust measures, tax concessions, loan policies, and other government aids. Consequently, it seems desirable to have more specific information than is now available about the individuals that today comprise this "bulwark of democracy." Are they, on the whole, more independent than skilled workers? And how, if at all, can they be differentiated from other economic groups in our society?

[1] Wendell B. Barnes, "Small Business in America – Its Place and Problems," *Advanced Management*, vol. 21 (July, 1956), pp. 7–8.
[2] "Looking Around," *Harvard Business Review*, vol. 33 (Nov.–Dec., 1955), p. 136.

This study of origins and job history of the little businessmen of Poughkeepsie is an attempt to throw some light on these questions. It cannot be claimed that Poughkeepsie businessmen are completely representative of small businessmen throughout the United States. But the alternative to an intensive study — a sample from the entire business population — has other limitations; and such relevant data as have been found for businessmen elsewhere do not reveal any important deviations for the Poughkeepsie group other than those noted in connection with the specific factors discussed below.

The Sample

The businessmen included in this study are those listed in the Poughkeepsie directories in the 20-year period from 1936 to 1955, excluding financial units and the construction industry. The 5,368 proprietors include sole owners, all partners, and resident presidents of corporations operating in the area. The choice of Poughkeepsie was dictated primarily by its accessibility to the writer, but its business population resembles that of other areas of the country closely enough to warrant some generalizations. While manufacturing is important, Poughkeepsie is also a shopping center for a considerable surrounding population. It is not a satellite city. There are no large cities within 70 miles. It is large enough to represent a wide range of business activities and small enough to make the inclusion of all business units of the categories listed practicable. The combined city and town population was approximately 54,000 in 1935 and 64,000 in 1955. The distribution of the business population among different types of business is shown in Tables 1, 2, and 3.[3]

[3] The directories cover the city and adjacent areas that form an integral part of the business community. The businesses included are manufacturing, wholesale, retail, and service units combined with public utilities. The taxi and trucking concerns which comprise the larger part of the public utility classification are essentially service units, and railway, telephone, and telegraph companies were automatically excluded from the study since they had no resident presidents. Financial concerns and the construction industry were excluded, partly to hold the study to manageable size. But building contractors also include many skilled workers who occasionally take on independent contracting as a side line, and this made classification uncertain. Those combining contracting with sale of building materials are in the retail group. For financial concerns, the difficulty of distinguishing between agents and independents proved greater than in other business categories, although in recent years this problem arises with increasing frequency in other kinds of business.

Since the study is designed to reflect the characteristics of little businessmen, a few presidents of corporations with 100 or more employees were excluded. This line between large and small units was adopted as a matter of expediency as it was possible to identify these large employers from other available data. A limit of under 20 employees might have been preferable, but since 94 per cent of the business concerns in Dutchess County in 1956 had less than 20 employees and two thirds had less than 4, the addition of a few larger employers cannot greatly change the findings. (U.S. Dept. of Commerce and U.S. Dept. of Health, Education, and Welfare, *County Business Patterns*, First Quarter, 1956. Most of the business concerns in the county are in the Poughkeepsie area.) The *Business Census of 1954*

Place of Birth

The birthplace was found for 2,550 (48 per cent) of the proprietors included in this study.[4] Distribution by place of birth is given in Table 4. The local group accounts for more than half of the proprietors of service stations and trucking concerns, and less than one fourth of the proprietors of clothing stores, shoe-repair shops, and manufacturing establishments. Only the heads of manufacturing concerns have come in large numbers from other states. Many of the retail clothing proprietors were from New York City; and the owners of shoe-repair shops were largely foreign born.

The great majority of proprietors have gone into business where they happen to be. A man who wants to operate a service station or a grocery store may choose his location within the city with some care, but he is not likely to move to another state, or even another city, for this purpose. Those who were born elsewhere did not necessarily move to Poughkeepsie in order to go into business. Only 27 per cent of the proprietors were not listed in the directories the year before starting in business, and some of these had been in Poughkeepsie at an earlier period, or were living nearby although outside of the directory area. The larger part of this 27 per cent, however, probably came to Poughkeepsie specifically to enter the business in question. These new arrivals are not concentrated in

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reports about one third of the Poughkeepsie City businesses of the categories included here as having no paid employees at all.

The directory data were found to be reasonably accurate and complete for the information given. Most businesses are listed four times – under their own names, the names of their proprietors, the street listing, and the classified section – and this provided a check on omissions and misspellings. The principal sources of information other than the directories were the local newspapers and questionnaires. The files of the *Poughkeepsie New Yorker* were examined for the entire period for bankruptcy notices and obituaries of local businessmen. The latter usually supplied date and place of birth, father's occupation, and some of the individual's job experience. A post-card questionnaire, sponsored by the Junior Chamber of Commerce of Poughkeepsie, was sent to every business proprietor listed in the 1957 directory. These numbered 2,266, comprising 1,369 active proprietors and 897 that had been in active business at some time between 1936 and 1955. Of the latter group 158 were not reached, having apparently moved after the directory was compiled. Those not replying were canvassed by student enumerators from Vassar College. The final returns came to a little over three fourths of the active proprietors and a little over half of those out of business, although not all answered every question. It should be added that the proprietors reached by the enumerators contained a much larger proportion of the foreign born, and the native born whose schooling ended with grammar school, than did the post-card inquiry.

For the proprietors residing in Poughkeepsie before and after their business ventures the directory provided their preceding and succeeding occupations. Consequently, data are available for these items for a much larger number than for most of the other items. Some data in addition to that provided by the directories were obtained for 47 per cent of all proprietors. Most of the others had left the community after closing their business.

Poughkeepsie is atypical in having a larger proportion of foreign-born residents than that found for the entire country; and manufactures employ a larger proportion of workers than in most cities of this size. This last is due to a few large plants; the proportion of manufacturing units among the business firms is below the national average.

[4] Those not represented comprise a high proportion of individuals who left the area after their business ended and these probably include a larger percentage of nonlocal proprietors than does the group for which the birthplace is known. Consequently, the sample may overestimate the number of proprietors born in the county. This should not affect the differences in place of birth found for different types of business, however.

any particular line of business, but they are found in smallest numbers as barbers, 87 per cent of whom had another job in Poughkeepsie just before they opened their own shop; and as garage owners, 80 per cent of whom had another job in Poughkeepsie before establishing their own garage.

The number of foreign born proprietors is out of proportion to the foreign born in the total population. Only 5 per cent of the employed native born persons in Poughkeepsie are business proprietors as compared with 15 per cent of the employed foreign born. In view of the fact that the native born are likely to have a wider range of choice of occupations than the foreign born, this suggests that the native born regard small business as a relatively unsatisfactory channel of advancement, but that the foreign born, with more limited opportunities, still regard this as one of the more promising ways of getting ahead.

The total number of foreign born residents constituted approximately 13 per cent of the city's population in 1935 and declined to a little under 10 per cent in 1955. Table 5 shows the proportion of foreign born proprietors in different kinds of business. Only in the automotive businesses have they made little headway. For trucking, service stations, and automobile sales they fall well below their proportion in the total population; and for garages they exceed their quota by only a small margin.

Italians have almost a monopoly of the shoe-repair and barber shops. Twenty-nine out of 40 of the shoe-repair proprietors whose birthplace is known, and 37 out of 103 barbers, were Italian born. And if those proprietors whose names indicate Italian birth or descent are added to the group, more than half of the barbers and more than three fourths of the shoe-repair proprietors are of Italian origin.

Greeks form a very small part of the Poughkeepsie population but they appear among the proprietors with more than 10 times the frequency that would be expected from their numbers. They are concentrated largely in the food business, to which American tradition has assigned them. Only one Greek born retailer was found outside of the food business, a tobacconist whose business lasted only four years. There are other retailers with Greek names, notably a druggist and a jeweler, but as far as the record goes all these were born in this country. More than half of the Greek proprietors are found in food retailing – most of them restaurant owners.

The clothing business, manufacture and retail, has attracted a

disproportionate number of East Europeans, mostly Poles and Russians, but these nationalities are found also in a variety of other businesses. Chinese proprietors are limited to laundries and restaurants, their traditional occupations in this country. The Oriental population of Poughkeepsie is very small and the Chinese proprietors have, for the most part, come from New York City for the specific business and have returned to New York when leaving the business.

Most of the foreign born are self-made businessmen. The larger part of this group has lacked the advantages of capital and of schooling beyond grammar grades. Many have had no formal education at all and some do not speak English. With these handicaps it is not surprising to find that the average size of their businesses is smaller than that for the native born. Proprietors were not asked to state the number of employees but many of the employees listed in the directories give their place of work rather than their specific occupation. These were tabulated for the year 1952. Even though the returns understate the total number of employees, there is no reason to believe that this understatement would be greater for one group of businesses than another. The results show that foreign born proprietors account for 31 per cent of all establishments with one or no paid employees reported and only 17 per cent of those with 16 or more such employees.

The number of foreign born in Poughkeepsie is declining, as it is in the country as a whole. A comparison of the businessmen who started their concerns in different periods shows that the foreign born proprietors have declined from 41 per cent of the total of those going into business before 1936 to 28 per cent for those starting in the decade 1936–1945, and to 20 per cent for those starting after 1945. With continued restrictions on immigration the foreign born cannot continue to provide any large number of proprietors. In Poughkeepsie the foreign born proprietors are being replaced by nonlocal American born rather than by Dutchess County natives. This is a reflection of the increasing mobility of the population as a whole and does not indicate that a growing proportion of these outsiders came to Poughkeepsie for the specific purpose of starting a new business. Ninety-four per cent of nonlocal proprietors going into business between 1946 and 1955 were in the area at least a year before going into business for themselves. No attempt has been made to identify Negro proprietors but the number is known to be small.[5]

[5] The 1950 Census reports less than 2 per cent of the employed Negro population in the

In summary, it appears that the majority of small proprietors go into business where they happen to be living. Little business does not, for the most part, offer opportunities that will persuade a man to move. The larger manufacturers have probably chosen the location of their plants with care. And a few proprietors have thought it worthwhile to move from New York City to Poughkeepsie to open a clothing store or a Chinese restaurant. But local trucking concerns, service stations, grocery stores, and barber shops are usually started by proprietors already in residence.

The foreign born have not found the handicaps of language, lack of capital, and relatively slight schooling insuperable barriers to going into business for themselves. On the contrary, they are found among the little businessmen in disproportion to their numbers. Their enterprises tend to be the smaller and less profitable ones, however, and even in these they are limited by custom. A Greek is acceptable as a restaurant owner; an Italian as a barber; but service stations are reserved for the native born. The number of foreign born proprietors is declining sharply with the continuing restrictions on immigration.

Fathers' Occupations

The occupations of the fathers of little businessmen are of interest primarily in indicating the economic status of the families from which the proprietors have come and the extent to which independent business has given the son higher status than his father. The following data shed some light on these relationships although the wide differences in status among the proprietors themselves make it difficult to trace any upward or downward movement. Fathers' occupations are recorded in Tables 6 and 7. These represent a little less than half of the total number of proprietors, most of the missing ones being those who left Poughkeepsie after closing their business. As far as is known, the sample is representative of the entire group with one exception. Those who inherited their fathers' businesses are presumably all accounted for in the sample since it was possible to get the data for local enterprises from the directories. The percentage for the whole group should be much smaller. Since comparisons from one type of business to another

United States as a whole as proprietors, and there is every indication that in Poughkeepsie, also, they are few in proportion to the Negro population. Most of those that were identified in the course of the study were serving their own group. They are better educated than the foreign born group and for that reason may have alternative forms of employment that are more attractive than those open to many of the foreign born. But also, the prejudice against Negroes in independent business appears to be greater than that against the foreign born.

are not impaired by this bias it seemed desirable to present the data as they were recorded in Tables 6 and 7, but corrected data are also given in Table 6 for comparison with the executives of large corporations.

Inheritance is most frequent in businesses with relatively large capital investment, such as manufactures, and clothing and furniture stores. It is lowest in those requiring little capital, such as barber shops, and in the new and expanding businesses such as service stations, garages, and beauty shops. Relatively few women – 16 in all – inherited their fathers' business; but a considerable number – 146 – took over their husbands' businesses.

The study of big business executives showed a decrease in the heirs for recent years. The Poughkeepsie study of little businessmen also shows a decrease in heirs for the youngest group. This may be due in part to the fact that some of the youngest group are potential inheritors whose fathers are still in active business. But when the proprietors are regrouped according to the period in which the business was started, to eliminate the age factor (the average age of starting business was about the same in the two periods), there is still a decline in inheritance – although not as marked – in the later period. Inheritance is also related to size. If the very smallest businesses, as represented by barber shops,[6] are compared with the largest, i.e., manufactures, inheritors are found to represent less than 2 per cent of the former and 12 per cent of the latter. Barbers' sons frequently become barbers, but after their apprenticeship they set up a shop of their own rather than continuing in their fathers' shops until the fathers die. The proportion of small proprietors whose fathers were owners of another business is large and shows no sign of declining.

Many of the changes from one period to the next are reflections of occupational trends in the population as a whole. This is true of the decline in the farmers and the increase in the sales and clerical groups. But the increase in the number of unskilled and semiskilled workers among the fathers of the younger proprietors is counter to the national trend.

The figures indicate a great deal of social mobility insofar as occupations determine social class. It is true that the largest group of proprietors comes from families of independent businessmen and farmers. But it is also true that the specific businesses vary widely from those of the fathers, and inheritance is small and declining.

[6] These have a larger proportion of one-man concerns and a smaller average income than any other group of businesses in Poughkeepsie represented by more than 100 proprietors. These percentages have been adjusted to eliminate the bias in figures for inheritance.

The degree of upward mobility is less clear. Approximately two fifths of the Poughkeepsie proprietors of this period were the children of small businessmen, although only a minority of this group inherited the father's business. Ten per cent more were the sons and daughters of farmers, and 4 per cent came from professional families. These combined groups, more than half of the total, do not appear to have changed their status for the better, as compared with that of the families from which they came. Some inheritors have been successful, however, in expanding the business to yield a higher income than their fathers obtained. But at the other extreme many inheritors have abandoned the inherited business because they had no interest in it or did not consider it sufficiently profitable to justify its continuance. Some of the respondents to the questionnaire stated that they had never been interested in the business, and had sold it as soon as they could find a buyer, even at a financial sacrifice, rather than to continue it themselves. In other instances the business was liquidated.

According to American tradition small business is a preferred occupation, and the sons of blue-collar workers move upward when they acquire a business of their own. But the son of a skilled mechanic who operated a one-man taxi business made a poorer living than his father, although the owner of a fleet of taxis, also the son of a mechanic, is clearly more prosperous than his father. The fact that the sons of skilled workers have gone into business in large numbers suggests that they are attempting to improve their position in this way over that of the family from which they came. Many can be found in Poughkeepsie who have been successful in this. Most of the sons of skilled workers who have gone into business for themselves may well be better off than their fathers were. But whether they are better off than today's skilled workers is another question. Skilled workers have raised their planes of living very materially in the past generation, and there is a good deal of evidence that they have also gained in social position.

The children of unskilled and semiskilled workers have a better chance of improving their status by going into business than the children of skilled workers simply because they are starting at a lower level. And there is little doubt that the majority of proprietors from unskilled workers' families are better off than the families from which they came. Isolated instances of unusual success among this group have been found. One son of an unskilled worker has made a marked success of an automobile agency, and a son of a semiskilled worker heads a large and prosperous dyeing and cleaning

establishment. Also, many who are making only modest profits have moved upward in the social scale a little, and probably also in planes of living. The fact that a large and growing proportion of the small proprietors come from the families of unskilled and semiskilled workers is evidence that for these small business is a channel of advancement.

Education

Data on education were obtained for 2,412 proprietors. The use of canvassers to reach all proprietors still living in Poughkeepsie insured adequate representation of the less educated who did not return the mailed questionnaires.

Table 8 shows wide differences in the educational levels of proprietors of different kinds of business. Although somewhat more than half of all proprietors had at least one year of high school, only 15 per cent of those with shoe-repair shops and 26 per cent of the barbers had any high school education. Other groups with comparatively limited education are tailors, with only 15 per cent of their number reaching high school, and dressmakers, with 25 per cent of their number reaching high school. Three of these four groups include exceptional numbers of foreign born. The dressmakers are not only native born but are mostly women born in Dutchess County. None of these businesses requires much capital and the majority have no paid employees. All, of course, require skill, but not the skills ordinarily learned in school. Also these are declining businesses and are, in consequence, heavily weighted with the older proprietors. Half of the members of each of these groups were born before 1900. The median year of birth for shoemakers was 1889, and for dressmakers 1882.

At the other end of the scale the clothing store proprietors have much the highest level of education of any group. Only the service station proprietors have relatively fewer members who did not go to high school, but their college record does not measure up to that of the clothing store proprietors. The high percentage of college educated proprietors in the clothing stores can be traced to the large group of Jewish proprietors among the men, and to the large number of college educated women who have gone into this field. Women are a large proportion of the proprietors in this group.

The women proprietors as a whole are better educated than the men. It has long been true in the United States that more girls than boys complete the high school course. It has never been true,

however, that more women than men have gone to college. Yet not only did a larger proportion of the women than the men proprietors get to high school, a larger proportion also went to college.

Table 9 shows that the foreign born proprietors have a much lower educational level than the native born. The group with the highest educational level is the native born from areas outside of Dutchess County. This is a reflection of the fact that the mobility of the better educated Americans is higher than the mobility of others. Those going into relatively unprofitable businesses are making the best of the situation as they find it at home. Those who leave home in search of greener pastures are likely to have the ambition in the first place to carry their schooling at least to the high school level. The foreign born are an exception to this. Their lack of schooling can be attributed to lack of opportunity rather than to lack of ambition.

Perhaps the most important question relating to education of the small business proprietors is whether they are better educated than the majority of Americans or not. This is at once a test of their social status and their competence. Owing to the rapid increases in recent years in the proportion of young people going to high school and college, and to the wide dispersion of ages of the Poughkeepsie proprietors (the oldest was born in the 1850's and the youngest in the 1930's), it is essential to compare the education of the proprietors with that of the rest of the population of their age groups. This has been attempted in Table 9, which shows the educational levels of proprietors born in the nineteenth century, those born in the first decade of this century, and those born after 1910. The shift in educational levels from one age group to the next is very marked. Less than 30 per cent of the oldest group reached high school, compared with 66 per cent of the middle group and 85 per cent of the youngest group. These trends are, of course, primarily a reflection of trends among the population as a whole; but when the education of the different age groups is compared with the average level reached by the entire population of their generation it becomes apparent that the small proprietors are better educated on the average than the total population in spite of the fact that the businessmen are heavily weighted with the foreign born whose education has been below that of the American born group. Their education falls far short of that of the big business executives.

In order to get some indication of the relation of the proprietors' education to the size of his establishment, the proprietors in business

in 1952 were grouped according to educational level and the number of employees. The data on employees are incomplete, as indicated earlier,[7] but they afford a rough measure of size. The results show that the proprietors with no more than a grammar school education comprise 44 per cent of those who have, at most, one paid employee, compared with 18 per cent of those whose employees number 16 or more. For college education, only 16 per cent of the proprietors of the smallest concerns qualify compared with 51 per cent of the largest.

In summary, the average small businessman is better educated than the average person in the total population. The really significant questions, of course, are how important is a college education to success in small business? And will the college educated be satisfied to spend their lives running such enterprises? These data give no clear answers to these questions, but they do show that the college men are not remaining in independent business as long, on the average, as those with less education. They are found in large numbers, however, in the larger of the small business units, as well as in big business, and if the average size of retail and service units continues to increase they may well attract larger numbers of college graduates than they do at present.

Job Experience Preceding Proprietorship

No attempt has been made to get the complete job history of the little businessmen, but the first full-time position and the position held immediately before the proprietorship listed were requested.[8] The first full-time job of 11 per cent of the proprietors was in their present business, including 3 per cent who started as proprietor of the business in question. This includes 2 per cent of the men, most of whom founded the business in question, and 10 per cent of the women, most of whom inherited their husbands' businesses. The total number whose first occupation was as proprietor of this or other concerns was 7 per cent. Four fifths of the group started as employees in minor positions, mostly unrelated to the later business — more than half as manual laborers.

First jobs were more closely related to the ultimate proprietorship in the service trades than in retailing. Some of the service group

[7] See page 481 above.

[8] First jobs were obtained only from proprietors answering the questionnaires, but for the proprietors' occupations immediately preceding the proprietorship the questionnaire data were supplemented by information from the directories. First jobs were obtained for 45 per cent of the group and the occupation preceding proprietorship for 74 per cent.

were apprentices in the trades they later pursued. In fact, the majority of the proprietors of shoe-repair and barber shops started as apprentices in those trades. A large number of the truckers started as chauffeurs and many of the garage owners started as mechanics. The retailers were recruited in larger numbers than the service trades from individuals who started work in clerical and sales positions, but more than half of these started as manual laborers. Only among the clothing merchants did the white-collar group predominate.

The ages at which the first jobs reported were begun vary from seven years to sixty-seven. The former was one of the foreign born proprietors who started on a farm. The latter was a housewife taking over her deceased husband's business. The median age for both men and women was eighteen but many more women than men were middle aged before they undertook any paid employment.

The occupations immediately preceding the proprietorship are, as is to be expected, more closely related to the new business than the first jobs; that is, they more frequently offer useful experience for the later business activity. Some proprietors from unrelated occupations may have had useful experience in earlier occupations. The first full-time job and that immediately preceding the proprietorship probably cover the total job experience for only a minority. The skilled worker and the man leaving the armed services may well have had relevant experience earlier. But it is doubtful if many of the unskilled workers opening one-man grocery stores, or the middle-aged housewives opening tea rooms, have had any business experience before they start.

Table 10 shows the variation in the proportion of related and unrelated previous occupations for different kinds of business and for men and women. Table 11 provides a breakdown of the related and unrelated categories. The grocery stores are unique in having more proprietors from unrelated than related categories.[9] This is the kind of business that appears to need little specialized training or experience, and which could be operated on a very small scale with some chance of success in the days when convenience still required neighborhood stores. Retail businesses as a whole attract a larger proportion of individuals from unrelated occupations than the service units. The latter tend to be smaller than the former, but the

[9] An earlier study of grocers in Minneapolis and St. Paul which covers *total* job experience reports that about half had had no previous experience in retail or wholesale business. (R. S. Vaile, "Grocery Retailing With Special Reference to the Effects of Competition," *Univ. of Minn. Studies in Economics and Business*, no. 1 [April, 1932], p. 16.)

services offered usually require special skills. A man can open a barber shop with very little capital and no hired help but he must have skill, and most barbers have worked as employees in another shop before starting their own. Much the same situation is found in other service trades, and all those separately listed in Table 10 have a higher percentage of proprietors with relevant experience than any of the retail businesses separately listed. The largest proportion of businessmen coming from related occupations, however, is found in the wholesale and manufacturing concerns.

White-collar workers are found in largest numbers in the clothing stores; skilled workers (excluding those who were formerly employed in a business requiring their specific skill) appear most frequently in the service stations; and semiskilled and unskilled workers in the trucking business. If only men proprietors are considered, however, the semiskilled and unskilled are found in even larger numbers in the grocery stores than in trucking. The restaurant proprietors have the largest proportion of individuals coming from another proprietorship, and also the largest number from the temporarily unemployed. Manufacturers rank first in the proportion of proprietors who have worked up in the same firm.

If previous occupations are reclassified according to the nature of the job (regardless of whether the job was in the business later owned, in a related business, or one unrelated to the later proprietorship), and the service men, housewives, students, and unemployed are excluded, it is found that those from independent businesses are approximately one fifth of the total, white-collar workers two fifths, and blue-collar workers two fifths.

Very few studies of the previous occupations of small businessmen have been found, but one quite recent study of 105 small businessmen in Oakland, California, provides detailed job histories. The average experience of this group ranged over two or three of the eleven categories used for the job classification, in addition to their own business.[10] This tends to confirm the evidence provided by the Poughkeepsie proprietors that the little businessmen are not, for the most part, dedicated entrepreneurs. They have been recruited from all kinds of occupations. A comparison of the principal occupations of the 105 Oakland proprietors with those of the Poughkeepsie proprietors immediately preceding their proprietorships shows similar distributions. This is given in Table 12.

[10] S. M. Lipset and R. Bendix, "Social Mobility and Occupational Career Patterns," *American Journal of Sociology*, vol. 57 (Jan. & March, 1952), pp. 366–374, 494–504.

Also in Table 12 will be found a tabulation of the occupations of successful small businessmen just preceding their successful business. This has been made from data appearing in *Fortune's Adventures in Small Business*.[11] These successful businessmen differ from those in the other two groups in other respects than their occupations immediately before going into the business in question. They are a better educated group, insofar as their brief biographies reveal their education. A very small number did not get as far as high school and more than two thirds of them are college men, including many with advanced degrees. Also, although many of the *Fortune* businessmen started with little or no capital of their own, a good many (certainly more than the Poughkeepsie group) had affluent families or friends. Finally, meteoric success appears to be limited pretty much to the field of manufacturing. The retail and service enterprises that occupy most of the little businessmen have very little representation in the *Fortune* group.

The previous occupations of the small businessmen differ greatly from those of large corporation executives. Only 12 per cent of the small businessmen had been employed in the business they later headed, compared with 77 per cent for the 1950 executives.[12] All of this 77 per cent and most of those corporate executives coming from outside of the corporation had managerial positions.[13] None of the corporation executives had come directly from the blue-collar and minor white-collar positions that occupied more than two thirds of the small businessmen before launching a business of their own.

A comparison of previous occupations for Poughkeepsie proprietors of 1900 and 1950, respectively, is given in Table 13.[14] This shows many similarities in the backgrounds for the men. Approximately the same proportion in each group came from employment in similar businesses, from other proprietorships, and from skilled laborers. Even the apparently smaller proportion of men among the 1900 proprietors who worked up in the business they later headed may be due in part to the failure of the earlier directories to report occupations for young adults living at home and working in the family business. However, the 1900 group had a larger proportion of white-

[11] New York, 1957.

[12] M. Newcomer, *The Big Business Executive* (New York, 1955), p. 96.

[13] Those coming from another independent business and those with managerial positions in other corporations.

[14] The data for 1900 are from the directories and include only those who had been in the area before going into business. Also, because a comparison of occupations after going out of business seemed desirable, proprietors still in business in 1906 and 1956 respectively were excluded since later occupations were not available for 1950 proprietors still in business in 1956.

collar workers than the 1950 group, and probably also a somewhat smaller proportion of individuals who worked up in the business. Also, the proportion of semiskilled and unskilled workers is appreciably smaller for the 1900 than the 1950 proprietors in spite of the fact that the proportion of such workers in the total population was larger for the earlier year.

The differences among the women proprietors are striking. Seventy-six of the 109 women in 1900 were dressmakers and several more were running boarding houses. These were about the only businesses that women might initiate at that time, although widows frequently continued their former husbands' businesses. Very few married women were in business; most were single or widows, and most of the 15 women in retail business had inherited it from husbands or fathers.

If previous occupations are reclassified according to the nature of the job (regardless of whether the specific job was in the business now owned, in a related business, or in an occupation unrelated to the later proprietorship), and service men, housewives, students, and unemployed are excluded, it is found that those coming from independent business declined from 25 to 19 per cent; the white-collar group declined from 42 to 39 per cent; and the manual workers increased from 33 to 42 per cent.

The fact that a substantial minority of little businessmen have gone into business from occupations that gave them no specific experience useful for the business they undertook raises the question as to the relation of such experience to success. The relatively small proportion of *Fortune's* successful businessmen whose previous jobs were unrelated to the business confirms the assumption that this is important. For the Poughkeepsie businessmen the only test of success available – a test with many limitations – is survival. Even though a man abandons his business voluntarily after a short time, it is probable that it is providing him with a poorer living than some alternative employment. Proprietors do not often give up a new business if it shows promise of being really profitable. Consequently, Poughkeepsie proprietors have been distributed in Table 14 according to previous occupation and the length of life of the business. This shows that 10 per cent more of the proprietors of the longer lived businesses than of those ending within three years were previously engaged in related businesses. It seems probable that this differential would be even greater if better tests of the relation of the earlier

job to the later business were available. Other factors making for success are discussed later in connection with the length of life of the enterprises in question, the reasons for terminating those which have closed down, and the later history of the proprietors.

In summary the data show clearly that while the larger part of the proprietors have had earlier experience in running a business of their own or have been employed either by the firm they took over or a similar business, there is a large minority — for grocers and for women proprietors as a whole, a majority — that appears to have had no earlier job experience that would be particularly useful for the business in question.

Reviewing all the factors discussed thus far, it is apparent that the little businessmen of Poughkeepsie have been recruited from all classes of the population. They have come in large numbers from the foreign born as well as the native born. Their education ranges from no formal schooling at all to advanced university degrees. Their fathers come from every occupational group in substantial numbers. And they themselves have come from all kinds of jobs or have opened a business of their own as their first attempt at a job. They have come in disproportionate numbers from the middle classes, and their own and their fathers' occupations are more often than not related to the ultimate proprietorship. But the handicaps of foreign birth, poverty, limited education, and no relevant skills or experience have not prevented hundreds of men and women from attempting and sometimes succeeding in earning a living in independent business.

Reasons for Going into Independent Business

Among other studies that have analyzed the motives of the little businessmen, one lists as the principal motives for going into business, in the order named: (1) ambition (partly financial); (2) control of income; (3) opportunity to invest savings; (4) less arduous employment; and (5) inheritance of a going concern.[15] This study was made in the prosperous 1920's and the alternative of unemployment is not listed. Vaile, whose study is limited to grocery stores in the larger Minnesota cities, states that he found half of 130 proprietors opening stores in 1930 had been unemployed and had been able

[15] E. D. McGarry, "Retail Trade Mortality in Buffalo, 1919–1928," *University of Buffalo Studies in Business, No. 4* (1929), p. 73. The businesses are drug, grocery, hardware, and shoe stores.

to find no better employment.[16] The tendency for the number of small businesses to increase in areas and at times of increasing unemployment has often been noted. The figures for the total business population, collected by the United States Department of Commerce, show such increases for the entire country in periods of rising unemployment. Similar increases have been found in other countries in times of business depression. Many of the unemployed in Germany in the decade before World War II opened small shops.[17] And Lord Shaftesbury, speaking of conditions in Manchester, England, in 1841, stated that he had found that 89 of 113 little businessmen in "miserable occupations" (mostly peddlers) were discharged factory workers.[18] Sidney Swensrud, testifying before the Temporary National Economic Committee, stated that one of the important factors accounting for the increase of more than 50 per cent in the number of service stations between 1929 and 1933 was unemployment, and cited both service stations and restaurants as being particularly suitable for the unemployed since they required little capital and little experience.[19]

The Poughkeepsie proprietors were not asked why they chose independent business, but their status before going into business gives indirect evidence of their reasons. Ambition and control of income — that is, the desire to be one's own boss and the hope of making more money than one is likely to obtain in a wage or salaried job are still, apparently, the most important factors luring men into independent business. These are probably the dominant motives that bring large numbers of young men with little job experience of any kind into businesses of their own. If their expectations are not realized, they may be glad to return to the employee status, but that does not change the original reason for making the venture. Those who, after long experience, take over the business in which they have been employed or start a similar business presumably have the same motives, as do those who launch successive enterprises and are not discouraged by a failure or two. They may, in the end, modify their expectations of income, but they clearly value independence.

Judging from earlier occupations, more than half of the Poughkeepsie businessmen belong to these categories, although the persistent entrepreneurs are a minority. Among this group there is one

[16] R. S. Vaile, "Grocery Retailing With Special Reference to the Effects of Competition," *University of Minnesota Studies in Economics and Business, No. 1* (1932), p. 16.

[17] J. D. Phillips, *Little Business in the American Economy* (Urbana, Ill., 1958), pp. 57–58.

[18] *Ibid.*

[19] *Hearings*, Part 15, p. 8676.

family of dedicated entrepreneurs that deserves special mention as providing the prototype of the little businessman. For three generations the men of this family have rarely worked in any but family enterprises. Most have taken over the family business or launched a new business of their own at a relatively early age. The businesses cover a wide range of activities, although most are retail concerns. The great majority of the businesses started by members of this family have succeeded. Seven have been in operation for from thirty to sixty years and two more have passed the fifteen-year mark.

This is not a typical "success story" as recorded in the *Fortune* series. None of the businesses has expanded to even a middle-sized concern and no large profits have been realized. One of the members of this family commented: "We don't make any money; we just don't lose it." This is nevertheless a success story in the pattern of the American idealization of independence and initiative. Only this is not an "old" American family. The founders were comparatively recent immigrants from an eastern European country – the "later immigrants" whose quotas have been so narrowly limited under our restrictive immigration legislation. And the family is unique in the Poughkeepsie records, although there are a number of individuals who are, like the members of this family, in business because they like it as a way of life.

Opportunity to invest savings does not appear to have been an important factor in drawing individuals into independent business. A few professional men and a few successful businessmen have gone into partnership with others in new enterprises while continuing to practice their profession or to devote their own time primarily to their established businesses. Their function appears to have been to provide capital, leaving management to their partners. But the increasing opportunities for small investors to buy the securities of large corporations have probably decreased materially the number of individuals interested in launching a new business as an outlet for savings.

"Less arduous employment" has definitely not been an important factor among the Poughkeepsie proprietors. On the contrary, they frequently stated that their reason for going out of business and seeking employment with others was their preference for regular hours and a shorter work week. The increasing mechanization of industry, together with a shorter work week, makes regular jobs less arduous than running a business of one's own today.

Inheritance of a going concern was responsible for 10 per cent of the proprietors going into business. A number of these, mostly women, were unwilling proprietors who disposed of the business shortly afterward, but the majority continued the business as long as they found it profitable to do so. Very few of the inherited businesses have survived until the third generation, although Poughkeepsie was a thriving business center a hundred years ago. But 13 firms operating for at least a part of the period of this study had survived for more than 80 years in the hands of the founders' families. Five of these had passed the century mark. Seven of the thirteen closed down during the period of the study with six still in operation. The oldest, now in the hands of the fifth generation, was in its 161st year as of 1960. This is probably unique in American business history. It remains a small retail establishment, and family pride rather than profits appears to be the reason for keeping it going. The current proprietors have other and apparently more lucrative business interests.

Eight per cent of the proprietors whose previous status is known were unemployed the year before they opened their business. Most of the period covered was one of comparative prosperity and this figure probably underestimates the importance of this factor, in consequence, over long periods of time. The number of business units in Poughkeepsie increased materially during the depression period of the 1930's, as it did elsewhere. Also, those losing their jobs after the preceding year's directory data were gathered and going into business shortly afterward appear as coming from other employment rather than being unemployed. It is possible, also, that those coming from outside of Poughkeepsie, whose previous status is not known, included a larger proportion of the unemployed than the local group. It seems probable that unemployment accounted for approximately one proprietor in ten.

In summary it should be noted that the small business proprietorship is less attractive today than it was a generation or so ago, not because the number of confirmed individualists who are willing to work hard and to sacrifice income for the sake of independence has decreased, but because of the great improvement in the status of employees. Hours of work have declined while the weekly pay checks have increased. Heavy work is taken over more and more by machines. The social security system and union contracts have reduced risks. And the social status of the worker has improved.

Starting a small business is not difficult. A dressmaker puts up a cardboard sign in the front window of her home, and perhaps has a listing in the telephone directory. The man who decides to make a living repairing radios or sharpening lawnmowers does the same. Barber shops, shoe-repair shops, and most retail establishments must have a suitable location in some neighborhood shopping center, but almost any available space in the area will do. Few of those who own a business outside of their homes own the business quarters. They usually rent space in some business block, and they move when a lower rental or more suitable space for their purpose can be found; or they may be forced to move because the owner of the building wants the space for other purposes, or an increase in rentals wipes out a small margin of profit.

Very few small concerns need specialized buildings. Where zoning regulations permit, it is not uncommon to establish a small manufacturing concern or a repair shop in the back yard of the owner's home, or to convert the front room of the house into a "parlor grocery." If specialized properties are required they may be supplied by someone else. The oil companies often provide service stations. It is exceptional for the proprietor of a really small business to own a specialized plant. Some retailers do not even own their stocks of goods. Wholesale grocers, for instance, may stock a man's grocery and let him sell what he can. With such small capital requirements it is easy to start or stop. Much of the equipment owned by the proprietor is movable and can be sold along with inventories without the necessity of finding a buyer for a going concern.

There are, of course, successful small businesses that have built up a valuable clientele. These can sell their trade names along with such physical properties as they may have when the owner dies or retires. But the marginal businessman does not even have good will. If someone else opens a similar business at the same location when the former proprietor quits, the new proprietor is counting on the location rather than his predecessor's reputation to bring customers. He will open under a different name and may even feature "change of management" to make sure that there is no confusion. When a parlor grocery goes out of business the family reconverts the store to living quarters; and if another family in the neighborhood decides that this leaves an unfilled need in the area they may open a new grocery in their own home and under their own name.

It is very common for a man going into business to start a new concern rather than to take over an old one. Sons often set up their own barber shops, service stations, and restaurants rather than to go into partnership with their fathers. The same holds true for employees. Not only are they independent, but with different locations they can cater to a different group of customers.

The data in Table 15 show that less than one in four of the Poughkeepsie proprietors has joined or taken over an established business. The others have created essentially new businesses. Only in manufacture, where substantial investments in specialized plants are likely to be required, does the proportion of new concerns fall below two thirds. At the other extreme, nine out of ten trucking concerns are new ventures. This is a business that may require little more equipment than a truck; and it is convenient to have the office at home where members of the family can answer the telephone when the proprietor is out on the job. In 1952 two thirds of the Poughkeepsie truckers had no business address other than their homes. The same proportion was found for radio and television repair shops. The proportion of new proprietors who took over an established concern instead of starting their own business is smaller than that reported for the country as a whole. Kaplan states that more than one third of prewar *discontinuances* were changes in ownership rather than liquidation.[20] But all the figures show that the majority of new owners are establishing new enterprises.

The high proportion of inheritance found for Poughkeepsie grocery stores – higher even than for manufactures – is due to the fact that this is a suitable occupation for women, and one in which many housewives participate even when their husbands are listed as sole proprietors. Half the proprietors of the Poughkeepsie grocery stores live at the same address as the store. The neighborhood store is expected to stay open for long hours, and this is practicable only if the whole family lives close at hand. When I once asked a new grocer solicitating my trade how he expected to succeed in this business he replied, "My wife helps me and we live behind the store." When a proprietor dies his wife often knows as much about running the store as he did and continues it as the easiest way of earning a living. Although women constituted only 22 per cent of the grocery store proprietors in these data they outnumbered the men among those who had inherited a family business. Inheritance is high, also, among manufacturing establishments, but for different reasons.

[20] A. D. H. Kaplan, *Small Business: Its Place and Problems* (New York, 1948), p. 56.

These are likely to have larger investments and more profits than most small businesses, although some of the retail and service concerns have built up a trade that is well worth inheriting.

Restaurants are unique in having the largest proportion of new proprietors for an established business with which they had no previous contact. The explanation of this is the tendency to form partnerships in the restaurant business. The new proprietors are not so much taking over as being added to the management. The proportion of partnerships in the restaurant business is about double that in other kinds of business.

Age of Starting Independent Business

The ages at which the Poughkeepsie proprietors started their enterprises ranged from sixteen to eighty. The youngest, the son of an unskilled laborer, began a trucking business as his first full-time job. He is still in business after 40 years. The oldest opened a parlor grocery and continued it until his death at eighty-eight.

Half the proprietors went into business between the ages of thirty-one and forty-seven, the median age being thirty-eight. The median age for starting a *first* venture would be a little lower. Those who make a career of independent business do not often start their working lives with their own business. As noted earlier, only 8 per cent of Poughkeepsie proprietors launched an independent business as their first full-time job, and only 3 per cent started with the business included in this survey. Even those intending to go into business for themselves usually start by working for someone else to gain experience or accumulate capital for their own venture. For most small concerns these ends can be achieved before middle age and those who have independent business as their goal are likely to start in their late twenties or early thirties. Approximately half of those who were in business for themselves by the age of forty-five had started before they were thirty-four. Most of those starting after forty-five are either men who are launching a second or third concern or men forced to go into independent business when age bars them from regular employment.

Women start later than men, largely because so many of this group are married women who have either been forced to earn their living in this fashion comparatively late in life, or who have been

prevented from such an undertaking earlier by family responsibilities. The youngest woman found was a nineteen-year-old dressmaker, and the oldest were two seventy-seven-year-old widows who inherited their husbands' businesses. One of them disposed of the business within a year. The other replaced her husband as a partner, and while she continued until her death four years later she did not take an active part in running the business.

Median ages of starting for different types of business are given in Table 16. The ages at which proprietors start their businesses are compared with their previous occupations in Table 17. The group that has come in largest proportion from related occupations is the one starting in middle age. The oldest group includes a larger proportion of proprietors coming from other independent businesses than the younger ones, but it also includes many whose age has prevented them from finding employment in their regular occupations. These include both the very old and men from occupations requiring early retirement. More former policemen and firemen, for instance, are found among the Poughkeepsie proprietors than would be expected from their numbers in the total population.

The youngest proprietors, with an even larger proportion of their number from unrelated occupations than the older groups, are nevertheless more likely to succeed than the older ones. This is presumably because they are more likely to have suitable alternative opportunities for employment than the older ones and they have deliberately chosen an independent business as a preferred occupation. Although many of those who go into a business for the first time when they are over 45 have managed to keep it afloat for a considerable period of time, it is likely to be a marginal business, sometimes providing less than a subsistence income. Evidence that the younger proprietors are more successful than the older ones is provided by the data on length of life of businesses for proprietors of different ages. For proprietors starting at thirty or younger, 85 per cent of the businesses survived three years, as compared with 84 per cent for those of thirty-one to forty-five, and 77 per cent for all over forty-five. The fact that the older group had fewer working years ahead of them than the others does not affect these percentages materially. Most of the older proprietors of short-lived businesses abandoned them long before they died or were ready to retire. It is the successful businessmen who tend to continue their businesses until they die.

The average length of life of a proprietorship is short in view of the normal working life of the individual. Only half reached their fifth year. The median length of life varies, however, with the form of business organization and the kind of business. For the business concerns closing during the twenty years 1936–1955, the median length of proprietorships was eight years for corporation presidents, four years for sole owners, and three years for partners. Proprietors who remained with their enterprises through one or more changes in the form of organization – for instance, from an individual enterprise to a corporation, or from a partnership to an individual enterprise – had a median tenure of nine years. Table 18 gives these comparisons in some detail.

Table 19 shows differences in length of life for different kinds of business. The shortest lived proprietorships are service stations and restaurants. More than half of these are discontinued in three years or less and only 9 per cent of the service stations and 12 per cent of the restaurants survived ten years. These have been some of the rapidly expanding businesses which attract many young and inexperienced proprietors and tend to multiply out of proportion to growing demand. Consequently many proprietors are forced out or become discouraged and quit. At the other extreme the longest lived businesses are the dressmakers, shoe-repair shops and barber shops. These are declining businesses. They attract few new proprietors and the older ones, lacking attractive alternatives, are likely to continue even though profits are small.

A comparison of the life of proprietorships for foreign and native born shows that the foreign born tend to stay in business longer than the native born. More than three fourths of the foreign born proprietors (77.5 per cent) continued their businesses for more than three years as compared with just over two thirds of the native born proprietors (67.7 per cent).

The longer lived proprietorships are also in the hands of those with the least education. The percentages for proprietorships that continued more than three years were 78 for owners with only a grammar school education, 60 for those who reached high school, and 59 for those with college training. This relationship holds for both the foreign and the native born. This, too, indicates that lack of attractive alternatives is an important factor in holding small proprietors in business. It can hardly be assumed that education

beyond the grammar school level spoils young people for independent business except as it opens other opportunities for earning a living. It is, of course, true that the proprietorships in the larger and more profitable enterprises last longer on the average than the proprietorships in the smaller and marginal enterprises; and that these represent a comparatively well-educated group of men. But they are outnumbered by the small marginal enterprises that require so little capital that the owners are not likely to be forced out for financial reasons. They usually have no debts and might find it difficult to obtain loans if they wanted them. They are not attracted to better opportunities simply because for them there are no better opportunities.

Other things being equal, the proprietors in the more profitable concerns last the longest and the ablest businessmen will be found heading them. But in a complex and changing society other things never are equal, and there are many exceptions to the rule. The reasons given for going out of business and the occupations of proprietors after leaving their enterprises throw further light on this.

Reasons for Going Out of Business

Since the majority of businessmen had either left the community or died before this study was made, the reasons for most of the proprietors going out of business could not be learned. These reasons were obtained, however, from 422 proprietors still in the area in 1957. As shown in Table 20 nearly half of these 422 proprietors quit for financial reasons. Only five had gone into bankruptcy and a number had made modest profits; but even when the business was not operating at a loss, many owners found better paying employment. With the exception of enforced retirement for illness or old age, inadequate income was responsible for abandoning the business in more instances than all the other reasons combined. Even some of the retirements may have been hastened by the small income that the business was yielding. Insufficient capital played a minor role.[21] Only seven of the 422 respondents mentioned it. The federal government's program of small business loans has often been criticized as failing to reach the very small business. These data

[21] A study of small and medium-sized business made in 1955 shows that 20% of the owners stated that they could not obtain all the capital they wanted, but that very few borrowed. (E. C. McKean, "Persistence of Small Business," *Upjohn Institute for Community Research Publication* [March, 1958], pp. 39–40). These businesses are apparently somewhat larger than the Poughkeepsie ones.

suggest that a more generous credit program would rarely solve the little businessman's problems. It is of interest to note, also, in view of the frequent complaint as to the burden of taxes on the little businessman, that not one of the former businessmen mentioned taxes as a reason for abandoning his business. The fact is that most of the proprietors own little taxable property. Business quarters are usually rented and New York State has no personal property tax. The federal and state income taxes do not bear heavily on the small incomes that most of these former proprietors obtained. The City of Poughkeepsie levies a sales tax which was opposed by the merchants when it was first levied in 1949, but none of these ex-businessmen mentioned this as a factor in closing their businesses.

Among the nonfinancial factors, retirement because of illness or old age was the most important reason for going out of business. And loss of interest and too long hours, even when those who inherited the business are excluded, each accounts for more proprietors abandoning their business than too much competition. It should be noted that more than half of the group who complained of too much competition specifically mentioned the supermarkets.[22] Labor troubles have been included under financial reasons because the inadequacy of help appears to be largely due to low wages. Of the five proprietors in this category two reported that they were unable to replace members of the family who had been helping in the business. One of these said that his son had found a better job and the other complained that his wife had left him! Those unable to find suitable quarters also belong in the group with inadequate earnings. They could not afford the rentals required to renew their leases or to find another good business location.

A more objective evaluation of reasons for going out of business which covers 210 terminated retail stores in the 1920's finds that 24 were the result of death of the proprietor and 5 the result of voluntary retirement. If these are counted as successful businesses and grouped with 14 that were sold at a profit, 21 per cent of these ventures had been successful. The remaining 79 per cent of unsuccessful ventures include 27 sold at a loss, 6 legal bankruptcies, 1 retirement for reasons of health, and 124 "failures."[23] This was in a period

[22] Between 1952 and 1955, inclusive, the percentage of retail grocery sales in the United States made by the supermarkets increased from 44 per cent to 60 per cent of the total. (Paul Donham, "Whither Small Business?" *Harvard Business Review*, vol. 35 [March–April, 1957], p. 75.) The number of grocery stores in the Poughkeepsie area decreased by one third in the 20-year period studied, although population increased substantially.

[23] E. D. McGarry, "Retail Trade Mortality in Buffalo, 1918–1928," *University of Buffalo Studies in Business, No. 4* (1929), pp. 81–85.

of prosperity. Among the Poughkeepsie firms closing between 1936 and 1955 there were 98 legal bankruptcies, representing 3.5 per cent of the total number of terminating businesses.[24]

STATUS AFTER GOING OUT OF BUSINESS

The proprietors who left the community when their businesses closed were 30 per cent of the total. Whether the move was a cause or a result of ending business, and whether they retired or found other occupations is not known except for a very small number of individuals.[25] For those proprietors remaining in the area data as to later occupations were found in the directories, and deaths were reported in the newspaper. For these residents later occupations have been recorded, together with deaths, retirements, and unemployment.

The occupational status of these ex-proprietors is given in Table 21 for the year following their going out of business. Nearly three fifths of the men and just over one fourth of the women had other paid employment. For men those working for others outnumbered the self-employed by three to one. For women this ratio was approximately two to one. Manual workers outnumbered white-collar workers among the men, but among the women the white-collar workers were the larger group. Nearly three fourths of the women had no paid occupation at all. Although only 18 per cent of the women had given household responsibilities as their reason for going out of business, 35 per cent were in fact housewives without paid employment. Whatever the reason for giving up the business, they had the option – not available to the men – of living on the earnings of their husbands. The men almost inevitably continue to work until death or old age, either as independent businessmen or as employees.

Previous training is an important factor in determining post-proprietorship occupations. Garage owners took employment as skilled mechanics. Truckers, who have been recruited in large numbers from less skilled occupations, return to these. And wholesalers, who frequently start as salesmen or in office positions, go back to

[24] Bankruptcies were regularly reported in the local newspapers so that this record is believed to be complete.

[25] Four had gone into bankruptcy before leaving; a few were reported as going into business elsewhere; two men had "skipped town" after getting into difficulties with the authorities; and several had retired and gone to Florida or to live with relatives in other areas. Many doubtless returned to an earlier place of residence. Sixty per cent of those leaving after giving up their business had come to Poughkeepsie for the first time when they started the enterprise.

similar work. The majority of beauty shop owners are housewives who limit themselves to homemaking after giving up the shop. Other factors accounting for differences in post-business activities for proprietors of different types of business are the age of the group and whether the field in question is an expanding or a declining one. Some of these variations are shown in Table 22.

A separate tabulation of nine kinds of business which declined in numbers by at least 25 per cent in the 20 years covered shows that a smaller proportion of the proprietors of these than of other proprietors left the community when the business ended (25 per cent vs. 30 per cent). The proportion that went to wage or salaried jobs was also smaller than for other proprietors (30 per cent vs. 41 per cent); a smaller proportion entered new businesses (9 per cent vs. 14 per cent); and a larger proportion died or had no paid occupation (52 per cent vs. 45 per cent).[26] When the nine declining businesses are separately considered, however, wide variations are found. To illustrate, three fifths of the ex-grocers had no paid employment compared with two fifths of the ex-butchers, presumably because of differences in age, skill, and amount of capital at their disposal. The younger proprietors with special skills and better education desert the declining business for better paid occupations. The individual who finds no attractive alternative remains with the declining business until he dies, retires, or is forced out. The relatively large proportion of men who were still in business at the time of their death includes large numbers of marginal proprietors at one end of the scale and at the other end substantial numbers of successful businessmen who have remained from preference.

Table 23 shows the differences in the status of ex-proprietors of 1900 and 1950, respectively. More of the later group went into other employment after closing their business. And among the employed ex-proprietors, a larger proportion of the 1950 than the 1900 group took wage and salaried jobs. Also, the proportion of employees in semiskilled and unskilled occupations was about twice as large for the 1950 as for the 1900 proprietors.

Table 24 shows the relationship between the status of the proprietor at the beginning of his business venture and his status at the end. Those who were employees immediately before going into independent business were more likely to return to a wage or salaried job than either the proprietors or the unemployed. More than

[26] The businesses and the percentage decreases in number of establishments are: dressmakers, 72%; tailors, 67%; plumbers, 53%; tobacconists, 53%; butchers, 51%; shoe repairers, 50%; confectioners, 35%; grocers, 34%; barbers, 25%.

one third of those who came from another proprietorship (37 per cent) went into still another independent business at the close of the one listed, whereas only 9 per cent of the proprietors coming from employee status started another business. Twenty-eight per cent of those who had been proprietors before undertaking the business in question remained with the latter business until retirement or death. This is the only group with less than half of the former proprietors either unemployed or in wage or salaried jobs.

A larger proportion of those who had worked in the business later taken over or in related businesses stayed with the proprietorship until death than any other group, 23 per cent compared with 18 per cent for all groups combined. Those not working in a related business before the proprietorship returned in larger numbers than the others to employee status – the larger part of them to jobs similar to the ones they had before going into business.

These data make it clear that the small business proprietors as a whole do not constitute a sharply differentiated social or economic class. They have come from all types of employment – skilled and unskilled manual labor, white-collar jobs, professions, and homemaking. The majority of the Poughkeepsie proprietors neither worked up in the business they headed later nor came to it from another independent business. Among those who went out of business between 1936 and 1955 only 364 went on to another proprietorship as compared with 1,150 who resumed the employee status. The fact that the proportion of employees among the former proprietors was larger for the 1950 than the 1900 proprietors suggests that there is less differentiation between these groups today than there was in 1900.

There are dedicated independent businessmen. Eighty-nine men were found who operated from three to five different businesses during the 20 years covered, and 421 more headed two separate enterprises. Few of this group worked for others at any time. In most instances the successful small businessman sticks to his original business, expanding it, and perhaps establishing two or three units if, as in the case of restaurants and service stations, different locations in the community will reach different customers. A few carry on two or three different kinds of business at the same time. The unsuccessful businessman is usually discouraged by a single try; but even among the unsuccessful there is a small group of perennial proprietors. Some of these are incurable optimists, not discouraged by one or even two failures; some even succeed in the end.

Others alternate employment with independent business as opportunity offers. Their businesses are marginal to be pursued only when better employment is not available.

An attempt has been made to isolate the dedicated entrepreneurs from the casuals by classifying as professional entrepreneurs all those who were in business for at least 20 years, plus all those with shorter lived enterprises who engaged in another business either immediately before or after the one in question. These persistent proprietors accounted for 1,136 of the 2,712 proprietors whose records were sufficiently complete for this purpose, or about two out of five. The remainder appear to have spent the larger part of their working lives as employees and housewives. They return to dependent status after a single and relatively short venture in independent business, to remain as employees for the rest of their lives. Judging from the testimony of those who stated their reasons for going out of business, and the further evidence offered by the fact that the number of new businesses increases in times of growing unemployment more than in times of prosperity, it is clear that for most the employee status is more satisfactory than the independent status.

The record also shows that a very large proportion of proprietors in little business do not value the kind of independence that this status provides. The hours of work for the independent businessman are likely to be long; he has little control over his working week. I know one hairdresser who closes his shop to go fishing when the spirit moves him, but he has uncommon skill and customers sufficiently devoted to adjust their schedules to his. The ordinary hairdresser faces stiff competition which he must meet as best he can. The corner grocer can compete with the supermarket only by catering to nearby residents without cars or by keeping longer hours than the larger store. With the increase in car ownership, and the growing number of supermarkets which keep open evenings and Sundays the small grocer's week increases rather than diminishes. The marginal service station must be open when customers happen to drive that way. A high degree of skill may be better rewarded in private employment than in a one-man shop. And the regular weekly pay check may provide more peace of mind than the uncertain profits of the entrepreneurship.

Independent business has offered a hazardous living over the more than 100 years covered by the Poughkeepsie record of duration of individual businesses. The average duration of a proprietorship has been brief from the earliest years of the record. But today the area

in which the little business is not faced with serious big-business competition is narrowing. The supermarket with its extensive parking facilities, its varied merchandise offerings, and even longer hours than are humanly possible for the one-man shop, competes with the neighborhood grocer as the older and relatively small chain-store units never did. The readymade clothing business has rendered the independent tailor and dressmaker obsolete. The electric razor has taken away a large part of the barber's business; and the washing machine has made heavy inroads on the laundry business. The factory shoe not only replaces those made to order; it is often not repairable.

Even more important is the improved status of the manual laborer. He has both higher wages and shorter hours than was formerly the case.[27] Factory work is cleaner than it used to be, and the factories themselves are pleasanter places in which to spend one's days. The worker has unemployment insurance and he is often protected by seniority rights and pension funds. He is better educated than earlier generations. And he quite regularly owns his own home, dresses as well as a professional man, and drives a car that may equal that of the young business executive. In short, the status of the employee is far better today than it used to be and rivals that of the independent businessman. Homes of their own and good-looking cars are the goals of far more young men than businesses of their own.

Conclusions

The functions of the little businessmen in America have changed over the years. The craft shops have practically disappeared. Manufacturing and retailing are separate processes, and manufacturing is large-scale business. There is still opportunity for innovators in this field to start on a small scale, as *Fortune's* "Adventures in Small Business" demonstrates, but success brings expansion beyond the range of small business. The payrolls of manufacturing establishments with less than 20 employees in 1956 were only 1 per cent of

[27] Between 1929 and 1956 the average income of proprietors increased 163% compared with 197% for manufacturing employees. The average income of proprietors was still higher than that of employees ($4,760 vs. $4,580) but the differential was small. (E. C. McKean, "Persistence of Small Business," *Upjohn Institute for Community Research* [March, 1958], p. 24.) If only small proprietors were included, their incomes would be lower than those of factory workers. As one illustration, the average weekly wage in manufactures in New York State in 1955 was $78, compared with weekly gross receipts of $66 for one-man barber shops. The barber shop is cited because cost of materials consumed is low and there are no wages. But this is not a home business, and rent and the cost of the utilities must be deducted from the gross before comparing the earnings of these and the factory workers. (Data from *Census of Manufactures* and *Census of Business*, 1954.)

the total.[28] Large-scale retailing, as exemplified by chains and supermarkets, has captured more than half of the market for many commodities.

It is still true, however, that three out of four business units, including manufacture, have no more than three employees, and a very large number have no paid employees at all. It is also true that the number of entrepreneurs has kept pace with the growing population. This has been true in Poughkeepsie over a period of 100 years; nor has the average length of life of the proprietorship changed over the long period.

There have, however, been important changes in the functions of little business, and with these there have been changes in the kind of individual attracted to this occupation. There are an increasing number of proprietor-salesmen who are hard to classify. These may sell the products of a specific manufacturer on salary, on commission, or on a commission-salary basis. At what point do these become independent businessmen? Among service station proprietors some own their own station, and may switch from one oil company to another if they think they can make more money that way; some are started in business by the oil company and buy the station over a period of years; and some operate stations owned entirely by the company and can scarcely be differentiated from a hired agent of the company. One of the Poughkeepsie operators answering our questionnaire commented, "If you call this an independent business."

Recently a "Start-Your-Own-Business-Exposition" was held in New York City. The exhibitors were in some instances manufacturers seeking to sell equipment to small businessmen. But for the most part, if the *New York Times* account is a true reflection of the exhibition, they were seeking agents to sell their products. The required investment varied from $150,000 for a Ben Franklin store down to $10 for a sample pair of shoes plus a case to carry them in and order blanks. The reporter's comment was, "Franchising appeared to be the order of the day." [29] Obviously proprietors would have varying degrees of independence, but the show was designed to secure new outlets for the products in question rather than to provide more opportunities for enterprising businessmen. These agencies require a very different type of proprietor than did the crafts. The successful proprietors will be skilled salesmen, not

[28] U. S. Dept. of Commerce and U. S. Dept. of Health, Education, and Welfare, *County Business Patterns*, 1956.
[29] *New York Times*, Jan. 30, 1960.

skilled craftsmen. And many do not require investment of one's own capital.

The fact that the average length of life of the proprietorship today is about the same as it was 100 years ago in Poughkeepsie suggests that risks of small business have neither increased nor diminished materially. It is true that technological improvements and methods of merchandising appear to be changing at an accelerated pace; but it is also true that even small business has increasing access to the necessary financing. Some small grocers have succumbed to the supermarkets, but others have been kept in business by the wholesale grocers. Wholesalers, and also some retailers, may be financed by manufacturers.

These aids make it possible for many proprietors to get a start in business without having accumulated much, if any, capital of their own; and this in spite of the fact that the amount of capital required for a successful business has steadily increased. The proprietor is less likely today to borrow from the bank. He is more likely to use equipment to which he does not hold title, whether on lease or buying on installment. He is perhaps less likely to go into bankruptcy than formerly but he can easily lose his business. He is apt to have less to say about how he runs his business than he did when he owned the whole establishment, with perhaps a loan from the bank. Under these conditions selling ability will be more important than either innovation or careful financial management.

Also personal relations with customers are less important than formerly even for quite small business. Customers, being more mobile, have a wider selection of places for their shopping, and they often do not know the proprietors of even the small shops that they patronize. With the increase in brand names and labels, and self-service, the customers depend less and less on the recommendation of a trusted proprietor. Shops, restaurants, and service stations have impersonal names, or perhaps nicknames. The surname of the proprietor rarely appears above the door as it regularly did a generation ago.

Changes in the nature of small business are not the only factors influencing the kind of individuals who become small business proprietors. Of at least equal importance is the changing status of the employee. More skill is required for the average worker today. At the same time, the skilled workers' jobs have become at once more attractive and more remunerative than they used to be. The unions have made the most of these possibilities. In consequence, the small proprietorship, with long hours and many uncertainties

may be less attractive than a 40-hour-a-week, push-button job, where judgment and manual skill are important, rather than physical strength. Moreover, growing prestige has accompanied better conditions of work. The nameless proprietor of the "Snow White Diner" on the highway leading to a large industrial plant, who speaks in broken English, and keeps his diner open from six in the morning until midnight, lacks the status of his customers who stop for coffee before starting their seven- or eight-hour day in the plant. This makes a difference in the type of men attracted to little independent businesses in the first place.

A comparison of the occupations for the Poughkeepsie proprietors of 1900 and 1950 before they went into business suggests that the improved status of the employee has been more important in determining the individuals who go into business than the changes in the nature of the business. A considerably larger proportion of the 1950 group than of the 1900 group came from the semiskilled and unskilled workers who tend to be the underemployed sector of the labor force today.

Also, the average age of starting a business has increased somewhat. It is difficult to find a new job after forty. And rigid retirement programs leave many still active men without employment. Independent business may be the only alternative for these. And for those drawing social security benefits that provide little more than bare necessities, a marginal business may afford a welcome addition to their meager incomes without producing enough to threaten their social security status. Data on the ages of the 1900 businessmen of Poughkeepsie are not available, but a comparison of the ages of starting business for those going into business between 1936 and 1955 gives support to the assumption that the group is getting older. Those entering business in the five years 1951 to 1955 were on average three years older than those entering business in 1936–1940. This suggests that the well-paid job is increasingly attractive to the younger generation as compared with independent business. The older men do not always have this alternative.

There will no doubt continue to be opportunities for ambitious enterprisers with small capital to succeed. But success means expansion beyond the limits of little business. There are a few Poughkeepsie proprietors who belong in this category. There are others whose businesses remain small and only moderately profitable, who are content to make some financial sacrifices for the kind of independence that running one's own concern provides. This attraction of small business is frequently noted. One recent report

cites a clothing retailer who would not sell his business for "three times its worth," and a small manufacturer who turned down a favorable price for his business. But these independents are only a minority of the little businessmen today.

The larger part of the little businesses in Poughkeepsie afford a very meager living, and most of the proprietors who are willing to operate such marginal concerns indefinitely are likely to be those of mediocre ability or those handicapped by some form of discrimination who have difficulty in finding well-paid employment. There will no doubt continue to be many young and ambitious enterprisers who go into business with little or no capital of their own. But those who succeed do not remain *little* businessmen; and those who fail spend most of their lives as employees.

The larger part of the Poughkeepsie proprietors, approximately two thirds of the entire group, spend a relatively small proportion of their working lives as proprietors. They do not differ greatly either in origins or training from the population as a whole. The group includes optimistic young men who will be discouraged by a single failure, men of middle age who are temporarily unemployed, and old men who can no longer find employment at their regular trade. And it includes housewives helping out with the family finances, and widows carrying on the family business. It also includes some able and energetic individuals who regard business as their life occupation and who are making more money as independent enterprisers than they could hope to make in private employment; and other confirmed businessmen who find it a congenial way of life even though it provides only a modest living. It is not surprising that such an amorphous and shifting group lacks cohesion. The lifetime businessmen who provide the stereotype of the small independent proprietors are a declining minority.

The middle class today is not made up primarily of independent businessmen and farmers. It consists largely of employees. But these are not the ill-fed, ill-clothed, ignorant and discontented rabble that Thomas Jefferson visualized if we should become a nation of employees. On the contrary they are for the most part well educated; they have high planes of living; and they are self-respecting. They are probably as intelligent, conservative, and dependable an electorate as the farmers and shopkeepers of Jefferson's day. And they are probably as safe, politically, as today's little businessmen.

Over the long run it seems quite probable that the little businessmen will go the way of the small independent farmers. Their num-

bers will decline in relation to the total population, and eventually the absolute number may also decline. Meanwhile there is still a place, even though a narrowing one, for the little business. The smaller units are more flexible than larger organizations in providing some consumer needs. They are still a channel for obtaining innovation. They continue to be a stepping stone to economic and social advancement for a few individuals. They provide a satisfactory way of life for others. And the fact that they are often used to supplement our system of unemployment and old-age benefits and pensions does not diminish their usefulness. Free entry is important, whatever the motive of those attracted.

The most useful steps the government can take to protect this group are to make sure that competition is "fair," and to take such measures as are within its power to promote general prosperity. Neither tax advantages nor the small business loan program afford assistance to the really small business, and other measures are likely to undermine their essential character. The Servicemen's Adjustment Act provided small loans that were useful in launching a good many servicemen in business in the decade following the end of World War II, but this was an abnormal situation. The loans provided by the Small Business Administration are designed for somewhat larger concerns. Among Poughkeepsie's businessmen, inability to get the necessary capital was given as the reason for going out of business by only 7 of 422 proprietors. Nor are tax reductions useful. Phillips notes that there was not enough mention made of taxes among 800 letters received from small businessmen in 1938 to give the matter special attention.[30] And as noted earlier, taxes were not mentioned by any of the 422 Poughkeepsie proprietors giving the reasons for terminating their businesses. Direct subsidies might keep the little businessmen in business, but these would destroy the essential character of free enterprise.

[30] J. D. Phillips, *Little Business in the American Economy* (Illinois Studies in the Social Sciences, vol. 42), (Urbana, 1958), pp. 84–85.

TABLE 1

BUSINESS UNITS IN POUGHKEEPSIE AND IN THE UNITED STATES AS A WHOLE, 1954 [a]

Business	Number of Units: Poughkeepsie Area	Number of Units: Poughkeepsie City	Number of Units: United States (In millions)	Percentage Distribution: Poughkeepsie Area	Percentage Distribution: Poughkeepsie City	Percentage Distribution: United States (In millions)
Retail	962	821	1,861	60.4	58.8	54.2
Service	421	340	953	26.4	24.4	27.8
Wholesale	103	122	288	6.5	8.7	8.4
Manufacture	107	113	331	6.7	8.1	9.6
Total	1,593	1,396	3,434	100.0	100.0	100.0

[a] Data for Poughkeepsie area from 1955 *Directory*. Data for Poughkeepsie City and the United States from *U.S. Business Census for 1954*. The smaller number of wholesale units found in the Directory than are reported in the Census may be explained at least in part by the fact that some merchants combine wholesale and retail. These have been included in retail for the Directory material. It may be, also, that the Directory data are incomplete. The smaller discrepancy in the manufacturing group may be the result of omissions in the Directory or to differences in classification. Some small businesses were engaged in more than one activity and the principal one was not always clear. The Poughkeepsie area is larger than the city and for service and retail establishments the shopping districts outside of the city easily account for the greater numbers reported in the area.

TABLE 2

KINDS OF BUSINESS FOR POUGHKEEPSIE BUSINESS UNITS AND PROPRIETORS, 1936–1955

Business	Number of Units and Proprietors: Business units [a]	Proprietors [a]: Total	Proprietors [a]: Men	Proprietors [a]: Women	Percentage Distribution: Business units [a]	Proprietors [a]: Total	Proprietors [a]: Men	Proprietors [a]: Women
All:	4,362	5,368	4,569	799	100.0	100.0	100.0	100.0
Retail	2,589	3,254	2,776	478	59.4	60.6	60.8	59.8
Service	1,279	1,586	1,296	290	29.3	29.6	28.4	36.3
Wholesale	240	249	238	11	5.5	4.6	5.2	1.4
Manufacture	254	279	259	20	5.8	5.2	5.7	2.5
Included in retail:								
Grocery	415	498	386	112	9.5	9.3	8.4	14.0
Clothing [b]	327	338	220	118	7.5	6.3	4.8	14.8
Restaurant [c]	378	619	534	85	8.7	11.5	11.7	10.6
Service station [d]	249	336	331	5	5.7	6.3	7.2	.6
Included in service:								
Shoe repair	63	75	72	3	1.4	1.4	1.6	.4
Barber	129	170	168	2	3.0	3.2	3.7	.3
Beauty shop	91	133	30	103	2.1	2.5	.7	12.9
Garage	124	157	155	2	2.8	2.9	3.2	.3
Trucking	126	127	126	1	2.9	2.4	2.8	.1

[a] A business unit is one with continuous operation even though the proprietor or form of organization changes. Proprietors include sole owners, partners, and resident corporation presidents. The actual number of persons included is 4,716. The same individual has been counted two or more times if he engaged in two or more enterprises.

[b] Includes department stores where clothing is an important item.

[c] Includes bars and taverns.

[d] Includes parking stations and fuel oil distributors.

TABLE 3

SIZE OF POUGHKEEPSIE BUSINESS UNITS AS MEASURED BY SALES AND EMPLOYEES, 1954[a]

Business	Percentage of Establishments With No Paid Employees	Average Number of Employees: All Establishments	Average Number of Employees: Establishments With Employees	Average Receipts (In thousands): All Establishments	Average Receipts (In thousands): Establishments With No Paid Employees
Retail	31.2	4.8	7.0	$108.0	$23.0
Service	49.4	3.1	6.1	25.0	6.3
Wholesale	[b]	9.2	[b]	426.0	[b]
Manufacture	[b]	137.1	[b]	1,128.0	[b]
Included in retail:					
Grocery	61.1	4.0	10.2	165.0	33.0
Clothing	14.6	3.8	4.4	79.0	7.0
Restaurants	16.8	4.0	4.8	43.0	15.0
Service station	21.5	2.3	2.9	60.0	21.0
Included in service:					
Shoe repair	80.0	0.3	1.3	[b]	[b]
Barber	72.3	0.3	1.1	5.5	4.8
Beauty shop	56.7	1.8	2.8	10.0	3.2
Garage	37.2	1.4	2.2	26.0	13.0

[a] Computed from data in *U.S. Census of Business, 1954.*
[b] Not given.

TABLE 4

PLACE OF BIRTH OF PROPRIETORS IN DIFFERENT KINDS OF BUSINESS

Business	Percentage Distribution: Dutchess County	Rest of New York State	Other Native Born	Foreign Born	Total	Number of Cases
All proprietors	36.4	23.1	11.4	29.1	100.0	2550
Retail	37.0	23.3	9.8	29.8	100.0	1525
Service	36.3	21.4	12.1	30.2	100.0	744
Wholesale	44.3	22.9	12.1	20.7	100.0	140
Manufacture	23.4	29.1	24.8	22.7	100.0	141
Included in retail:						
Grocery	31.3	18.1	5.7	44.9	100.0	265
Clothing	19.3	42.1	11.7	26.9	100.0	145
Restaurant	29.7	14.9	11.9	43.5	100.0	269
Service station	56.8	22.7	15.9	4.6	100.0	132
Included in service:						
Shoe repair	15.0	7.5	—	77.5	100.0	40
Barber	30.1	15.5	12.6	41.8	100.0	103
Beauty shop	49.1	20.8	18.9	11.3	100.0	53
Garage	44.8	26.8	13.4	14.9	100.0	67
Trucking	51.1	33.3	13.3	2.2	100.0	45

TABLE 5

FOREIGN BORN PROPRIETORS AND TOTAL FOREIGN BORN POPULATION IN POUGHKEEPSIE [a]

	Percentage Distribution						
	Italy	Germany, Austria, Hungary	Greece	Other West European	Other East European	Non-European	Total
Poughkeepsie Population	3.8	2.4	.4	2.2	2.8	0.6	12.2
All proprietors	8.5	5.4	4.5	1.7	6.5	2.4	29.1
Retail	7.7	5.1	4.1	1.6	8.0	3.3	29.8
Service	12.4	6.5	6.3	1.8	2.4	0.9	30.2
Wholesale	2.1	5.7	2.9	–	9.3	0.7	20.7
Manufacture	3.5	2.1	.7	3.5	9.9	2.9	22.7
Included in retail:							
Grocery	16.2	7.9	1.1	1.9	12.1	5.7	44.9
Clothing	3.4	4.1	–	2.1	17.2	–	26.9
Restaurant	9.2	5.2	20.4	0.7	3.3	4.6	43.5
Service station	–	1.5	–	1.5	0.8	0.8	4.6
Included in service:							
Shoe repair	72.5	–	2.5	–	2.5	–	77.5
Barber	35.9	–	2.9	1.0	1.0	1.0	41.8
Beauty shop	3.8	–	3.8	3.8	–	–	11.3
Garage	3.0	7.5	–	1.5	3.0	–	14.9
Trucking	2.2	–	–	–	–	–	2.2
Number of cases	217	137	115	43	167	62	741

[a] Poughkeepsie population is as of 1940; proprietors are for 20 years, 1936–1955.

TABLE 6

OCCUPATIONS OF FATHERS OF POUGHKEEPSIE PROPRIETORS DISTRIBUTED ACCORDING TO SEX AND YEAR OF BIRTH OF THE PROPRIETOR AND COMPARED WITH OCCUPATIONS OF FATHERS OF BIG BUSINESS EXECUTIVES

	Percentage Distribution										
	Head of Son's Firm[a]	Proprietor of Another Business	Farmer	Total Independent	Business Managers	Sales and Clerical	Skilled Workers	Semiskilled and Unskilled	Total Employees	Professional	Grand Total
All proprietors[b]	10.8	33.8	9.8	54.4	3.4	4.4	17.0	16.9	41.7	3.9	100.0
Men	11.2	34.1	9.4	54.7	3.5	4.3	16.3	17.3	41.4	3.8	100.0
Women	6.7	30.8	13.3	50.8	1.7	5.4	23.8	12.5	43.4	5.8	100.0
Year of birth of proprietor											
Before 1901	8.5	34.0	16.6	59.1	2.5	3.8	15.4	14.3	36.0	4.8	100.0
1901–1910	11.0	30.3	10.8	52.1	5.4	3.9	19.3	15.3	43.9	3.9	100.0
1911–	7.7	35.8	5.8	49.3	2.6	5.0	20.0	18.4	46.0	4.6	100.0
Poughkeepsie Proprietors (Adjusted distribution)[c]	5.4	35.8	10.4	51.6	3.6	4.6	18.1	17.9	44.2	4.2	100.0
Large Corporation Executives[d]	11.6	36.8	13.4	61.8	7.3	5.6	5.4	2.1	20.4	17.8	100.0

[a] Also daughters.

[b] Data for 2,501 proprietors, or 47 per cent of all proprietors. These included 2,261 men and 240 women.

[c] The Poughkeepsie data have been adjusted to take into account the bias resulting from a complete return for inheritors and an approximately 50 per cent return for others.

[d] Data from M. Newcomer, *The Big Business Executive* (New York, 1955).

TABLE 7

Occupations of Fathers of Poughkeepsie Proprietors in Different Types of Business

Percentage Distribution

Business	Occupation of Father: Head of Son's Firm	Other Proprietors [a]	Professional	White-collar Employees	Manual Workers	Total
All Business	10.8	43.6	3.9	7.8	33.9	100.0
Retail	9.8	45.0	4.2	7.9	33.2	100.0
Service	9.4	41.1	2.6	8.1	38.8	100.0
Wholesale	18.7	44.6	5.8	6.4	24.5	100.0
Manufacture	21.8	42.9	6.8	3.8	24.8	100.0
Included in retail:						
Grocery	9.1	46.4	3.3	5.3	35.7	100.0
Clothing	17.1	51.2	8.5	6.3	17.0	100.0
Restaurant	4.2	46.4	3.8	7.8	37.6	100.0
Service station	3.8	34.0	2.5	15.1	44.4	100.0
Included in service:						
Shoe repair	8.3	50.0	2.8	–	38.9	100.0
Barber	2.7	45.5	1.8	4.5	45.5	100.0
Beauty shop	–	47.0	–	15.2	37.8	100.0
Garage	2.7	43.8	6.9	15.1	31.5	100.0

[a] Including farmers.

TABLE 8

EDUCATION OF POUGHKEEPSIE PROPRIETORS DISTRIBUTED BY KIND OF BUSINESS [a]

Business	Percentage Distribution					
	No Formal Education	Grammar School	High School	College	Graduate School	Total
All proprietors	1.6	45.4	37.5	14.5	0.9	100.0
Retail	2.2	44.0	39.3	13.8	0.7	100.0
Service	0.9	50.7	33.7	14.0	0.7	100.0
Wholesale	–	40.1	37.1	19.7	3.0	100.0
Manufacture	1.5	38.1	38.8	19.4	2.2	100.0
Included in retail:						
Grocery	4.8	56.3	32.9	6.0	–	100.0
Clothing	–	31.4	39.4	28.5	0.7	100.0
Restaurant	3.1	50.0	40.0	6.5	0.4	100.0
Service station	–	30.6	53.2	16.1	–	100.0
Included in service:						
Shoe repair	–	84.6	12.8	2.6	–	100.0
Barber	–	73.5	26.5	–	–	100.0
Beauty shop	–	35.0	53.0	9.8	2.0	100.0
Garage	–	35.0	48.3	16.7	–	100.0
Trucking	1.4	43.0	35.6	18.8	1.1	100.0
Men	1.5	46.2	37.3	14.1	0.9	100.0
Women	2.6	39.3	39.7	17.6	0.7	100.0
Number of proprietors	39	1096	905	350	22	2412 [b]

[a] Data are for those who reached but did not go beyond the indicated level.
[b] This is 45 per cent of the total number.

TABLE 9

Educational Level of Poughkeepsie Proprietors in Relation to Place and Date of Birth[a]

Percentage Distribution

Educational Level	Place of Birth: Dutchess County	Place of Birth: Other Areas of the United States	Place of Birth: Foreign Countries	Total
No formal education	.2	.1	5.2	1.7
Grammar	36.6	33.7	69.7	45.3
High	47.2	43.3	19.8	37.8
College	15.1	21.7	5.2	14.5
Graduate	.8	1.1	.1	.6
Total	100.0	100.0	100.0	100.0

	Date of Birth: 1900 and Earlier	Date of Birth: 1901–1910	Date of Birth: 1911–	Total
No formal education	2.9	.4	.2	1.6
Grammar	68.6	33.9	15.0	46.5
High	21.5	49.5	59.3	37.9
College and graduate	7.0	16.2	25.5	13.9
Total	100.0	100.0	100.0	100.0
Comparison with Other Groups of Same Ages:				
High school:				
Total U.S. population[b]	10.0	31.0	59.0	
Poughkeepsie proprietors	21.5	49.5	59.3	
Big business executives[c]	33.0	17.0	–	
College:				
Total U.S. population[b]	5.0	9.0	16.0	
Poughkeepsie proprietors	7.0	16.2	25.5	
Big business executives[c]	60.0	80.0	100.0	

[a] Data for both schooling and place of birth were obtained for 2,354 proprietors; and data for both schooling and date of birth were obtained for 2,272.

[b] The median year of birth for each group of Poughkeepsie proprietors has been used for the comparative figure for the total U.S. population; males only were included since most of the Poughkeepsie proprietors are men.

[c] Data for big business executives are from unpublished data gathered for my study, *The Big Business Executive* (New York, 1955).

TABLE 10

Occupations of Proprietors Before Independent Business Grouped as Related or Unrelated to Business

Percentage Distribution

Business	Earlier Occupation			
	Related [a]	Unrelated [b]	Unemployed	Total
All proprietors	64.0	27.7	8.3	100.0
Men	70.5	21.5	8.0	100.0
Women	29.0	61.4	9.6	100.0
Retail	61.6	29.8	8.6	100.0
Service	65.8	26.7	7.5	100.0
Wholesale	75.2	14.9	9.9	100.0
Manufacture	71.4	20.9	7.7	100.0
Included in retail:				
Grocery	42.3	48.7	9.0	100.0
Clothing	67.9	24.5	7.6	100.0
Restaurant	61.4	28.8	9.8	100.0
Service station	62.8	29.9	7.3	100.0
Included in service:				
Shoe repair	74.0	18.0	8.0	100.0
Barber	73.0	22.7	4.3	100.0
Beauty shop	71.2	22.4	6.4	100.0
Garage	70.1	23.4	6.5	100.0
Trucking	69.1	27.3	3.6	100.0

[a] Includes all proprietorships, employment in this or other related business, and white-collar occupations.

[b] Includes manual workers, professional positions, students, armed services, and housewives. In some cases manual workers or professional workers were engaged in related businesses. These have been classified under the related rather than the unrelated group. To illustrate, a mechanic taking over a garage is classified as having been in a related business, but a mechanic opening a grocery store is classified as in unrelated work. A few students were preparing for specific businesses, such as pharmacists and morticians; and a number of housewives had been unpaid workers in their husbands' business before taking them over, but the majority went into businesses with which their husbands had no connection.

TABLE 11

Occupations of Poughkeepsie Proprietors Preceding Proprietorship

Percentage Distribution

Earlier Occupation	All proprietors	Present Business: Men	Women	Retail	Service	Wholesale	Manufacture
Head of another business	15.4	17.3	5.4	16.6	12.5	19.2	15.9
Employee of present business	11.9	13.1	5.8	10.9	10.1	18.7	29.6
Employee of similar business	23.7	26.1	11.0	19.2	35.3	18.1	13.8
Sales, managerial, and clerical	12.9	14.0	6.8	15.0	8.0	19.2	12.3
Skilled workers	7.8	9.2	.5	8.0	7.8	5.0	8.2
Semi- & unskilled workers	7.5	8.2	4.0	8.3	7.7	2.2	2.0
Professional positions	1.4	1.5	1.0	1.3	1.1	1.1	4.1
Housewives	8.8	–	55.4	9.9	7.6	5.0	6.6
Armed services	1.6	1.9	–	1.8	1.7	1.1	–
Student	.6	.7	.5	.6	.8	.5	–
Unemployed	8.3	8.0	9.6	8.6	7.5	9.9	7.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of cases [a]	3933	3308	625	2373	1182	182	196

[a] 73.6 per cent of all proprietors.

TABLE 12

Comparison of Occupations Preceding Proprietorship for Poughkeepsie and Those of Two Other Recent Studies [a]

Earlier Occupation	Percentage Distribution: Poughkeepsie	Oakland	Fortune Study
Independent business	17.3	21.6	31.3
Professions	1.5	2.1	22.1
Sales	16.7	12.4	13.5
Other white-collar workers including managers	16.4	12.4	16.6
Skilled workers	18.1	18.1	5.5
Semiskilled and unskilled workers	19.3	20.6	1.2
War service	1.9	3.1	7.4
Unemployed	8.7	9.4	2.4
Total	100.0	100.0	100.0
Number of cases	3308	105	163

[a] The Oakland study is that of S. M. Lipset and R. Bendix, "Social Mobility and Occupational Career Patterns," *American Journal of Sociology*, vol. 57 (Jan. & March, 1952), pp. 366–374, 494–504. The *Fortune* data have been compiled from "Adventures in Small Business" (New York, 1957). These last are *successful* businessmen. Many of the businesses represented are no longer small, but most of them did start as quite small enterprises. The periods in which the businesses of these three studies were launched do not vary materially although the Poughkeepsie study, including as it does many businesses that had closed down before the 1950's, contains more businesses started in the prewar period than the other two. Women have been excluded from the Poughkeepsie and *Fortune* groups since the Oakland study was of men only. Students have been included as unemployed.

TABLE 13

Occupations of Proprietors Before Independent Business for Businessmen of 1900 and 1950, Respectively

Earlier Occupations	Percentage Distribution: Men 1900	Men 1950	Women 1900	Women 1950
Related:				
Proprietor of another independent business	20.3	21.4	3.2	3.9
Employee, this firm [a]	7.8	15.8	–	3.9
Employee, similar business	20.8	22.4	–	12.6
Managers, salesmen, clerical	20.8	10.9	–	6.8
Total related occupations	69.7	70.5	3.2	27.2
Unrelated:				
Skilled workers	9.5	8.7	–	–
Semiskilled and unskilled workers	5.2	8.7	–	3.9
Professional	1.3	2.4	–	1.9
Service men	–	1.8	–	–
Housewives	–	–	77.4	61.2
Total unrelated occupations	16.0	21.6	77.4	67.0
No occupation	14.3	7.9	19.4	5.8
Total	100.0	100.0	100.0	100.0
Number of cases	231	495	109	136

[a] There is some evidence that sons and daughters living at home and working in the family business were less likely to be listed as having an occupation in 1900 than in 1950. This probably accounts, at least in part, for the smaller number of employees of this firm in 1900 than in 1950 and the larger number with no occupation.

TABLE 14

Occupations of Proprietors Before Independent Business Related to Length of Life of Business

Percentage Distribution

Earlier Occupations	Years in Business: Three or less		Years in Business: Four or more	
Related:				
Proprietor of another independent business	13.6		18.6	
Employee, this firm	6.6		12.8	
Employee, similar business	18.9		20.3	
Managers, salesmen, clerical	16.6		14.0	
Total related occupations		55.7		65.7
Unrelated:				
Skilled labor [a]	8.3		7.5	
Semiskilled and unskilled labor	9.6		7.6	
Professional [a]	1.7		1.2	
Student	.6		.5	
Armed services	1.3		2.6	
Housewife	12.1		7.4	
Total unrelated occupations		33.6		26.8
Unemployed		10.6		7.4
Total		100.0		100.0
Number of cases		494		4056

[a] Skilled laborers and professional men working in related businesses before starting their own business are included in the related occupations.

TABLE 15

ORIGIN OF BUSINESS [a]

Business	New Concern	Inherited from Member of Family	Taken Over from Former Employer	Other Going Concerns	Total
	Percentage Distribution				
All proprietors	76.9	9.9	4.0	9.2	100.0
Retail	76.0	10.2	3.4	10.4	100.0
Service	81.3	7.5	4.0	7.2	100.0
Wholesale	76.7	15.3	3.2	4.8	100.0
Manufacture	62.0	16.1	11.5	10.4	100.0
Included in retail:					
Grocery	75.1	17.0	1.2	6.6	100.0
Clothing	78.1	11.0	2.9	8.0	100.0
Restaurant	68.0	6.3	3.9	21.8	100.0
Service station	82.4	4.5	3.0	10.1	100.0
Included in service:					
Shoe repair	80.0	14.7	1.3	4.0	100.0
Barber	81.8	8.2	3.5	6.5	100.0
Beauty shop	82.0	—	9.8	8.3	100.0
Garage	88.5	1.9	3.8	5.7	100.0
Trucking	89.8	7.9	.8	1.6	100.0
Men	78.2	7.8	4.3	9.7	100.0
Women	69.5	21.9	2.2	6.4	100.0
Number of cases	4127	534	215	492	5368

[a] The line between starting a new business and taking over a going concern is not always clear. The test applied was to assume that the business was new if it was given a new name even though there had been a similar business at the address. The fact that rented quarters are used for the same kind of business by different proprietors does not indicate that the former proprietor sold to the new one. Where the same name was continued, on the contrary, it was assumed that the new proprietor paid for the privilege. If the business was taken over from relatives or a former employer the directory data were usually clear. Also, the instances in which a man is taken in as a partner in an established concern or becomes president of an existing corporation are always clear.

TABLE 16

AGE OF POUGHKEEPSIE PROPRIETORS IN YEAR OF ENTERING BUSINESS

Business	Youngest	First Quartile	Median	Third Quartile	Oldest
All proprietors	16	31	38	47	80
Retail	17	31	38	48	80
Service	16	30	37	47	77
Wholesale	18	32	38	46	71
Manufacture	20	33	42	51	66
Selected retail:					
Grocery	19	31	38	48	80
Clothing	18	29	35	45	71
Restaurant	17	32	40	49	70
Service station	18	26	36	44	66
Selected service:					
Shoe repair	24	30	36	50	69
Barber	19	30	35	47	69
Beauty shop	24	31	38	45	57
Garage	18	31	38	45	73
Trucking	16	29	34	43	57
Men	16	30	37	47	80
Women	19	39	44	53	77

TABLE 17

Previous Occupations of Proprietors Related to Age of Starting Independent Business

Percentage Distribution

Previous Occupation	Age of Entrance: 30 and under	31–45	46 and over
Related:			
Proprietor of another business	9.8	18.8	20.7
Employee of this firm	16.7	13.1	11.3
Employee of similar business	23.4	29.0	23.6
Manager, salesman or clerical	11.3	14.0	11.1
Total, related occupations	61.2	75.0	66.7
Unrelated:			
Skilled worker [a]	6.5	8.2	8.5
Semiskilled and unskilled workers	7.8	3.7	5.0
Professional	1.7	2.3	.5
Student	3.5	–	–
Armed services	5.4	1.4	.3
Housewife	3.0	4.5	9.4
Total, unrelated occupations	28.0	20.0	23.7
Unemployed	10.8	5.0	9.6
Total	100.0	100.0	100.0
Number of cases	461	883	585

[a] Excluding skilled labor as employee of same or similar business.

TABLE 18

Tenure of Proprietorships in Different Forms of Business Organization

Percentage Distribution

Surviving	Sole Owner	Partner	Corporation President	Changing Status in Same Business [a]
First year	78	77	88	100
Third year	55	46	68	90
Fifth year	43	32	57	82
Tenth year	25	17	33	62
Twentieth year	10	8	13	35
Number of cases	2559	816	236	343

[a] These include proprietors whose status has changed from partner, single proprietor to corporation president, etc.

TABLE 19

LENGTH OF LIFE OF POUGHKEEPSIE PROPRIETORSHIPS TERMINATING IN THE YEARS 1936 TO 1955 INCLUSIVE

Business	Cumulative Percentage						Number of Proprietorships
	1 year or less	3 years or less	5 years or less	10 years or less	20 years or less	Over 20	
All proprietorships	20	43	55	73	88	12	3954
Retail	22	46	59	76	89	11	2411
Service	17	39	50	68	86	14	1183
Wholesale	15	39	48	65	84	16	170
Manufacture	13	36	46	66	85	15	190
Included in retail:							
Grocery	17	36	49	65	84	16	384
Clothing	21	44	53	68	83	17	243
Restaurants	23	52	67	88	96	4	472
Service stations	34	59	74	91	98	2	258
Included in service:							
Garages	20	42	54	72	94	6	124
Barbers	16	34	46	68	81	19	115
Shoe repair	13	33	45	63	77	23	60
Trucking	16	43	52	65	88	12	110
Beauty shops	10	34	49	71	89	11	96
Dressmakers	11	25	30	52	70	30	56
Men	19	42	54	72	87	13	3345
Women	22	49	59	76	91	9	609

TABLE 20

Reasons for Going Out of Business

Reasons	Number Reporting	Percentage Distribution
Primarily financial:		
"Didn't pay"	90 [a]	21.3
Better job	34	8.1
Lost lease, or quarters unsuitable	26	6.0
Too much competition	21 [b]	5.0
Good chance to sell	12	2.8
Not enough capital	7	1.7
Labor troubles	5	1.2
Total financial	195	46.2
Not primarily financial:		
Illness or old age	97	23.0
Lost interest	40 [c]	9.5
Armed services or war restrictions	36	8.5
Too long hours	28	6.6
Partnership disagreement	17	4.0
Home responsibilities	9 [d]	2.1
Total nonfinancial	227	53.8
Total	422	100.0

[a] Five of these went bankrupt.
[b] Twelve of these referred specifically to the supermarkets.
[c] Sixteen of these inherited the business.
[d] All these were women.

TABLE 21

Proprietors' Status Following Withdrawal from Business

Occupied as	Men	Women	Total
	Percentage Distribution		
Proprietor of another business	13.9	7.9	13.0
Professional position	.6	1.6	.7
Employees:			
Manager	6.6	2.3	6.0
Salesman	6.8	2.5	6.1
Clerical worker	3.7	3.5	3.6
Skilled worker	13.8	3.5	12.2
Unskilled and semiskilled workers	12.3	4.2	11.1
Armed services	1.5	.2	1.3
Total employees	44.6	16.2	40.3
Total in paid occupations	59.1	25.8	54.0
Not in paid occupations:			
Housewives	–	35.3	5.5
Retired	7.3	7.9	7.4
Dead	18.2	7.2	16.5
Unemployed	15.3	23.8	16.6
Total not in paid occupations	40.9	74.2	46.0
Grand total	100.0	100.0	100.0
Number of cases	2373	432	2805

TABLE 22

Businesses with Highest and Lowest Percentage of Proprietors of the Status Indicated After Leaving Business

Status after Leaving Business [a]	Average: All Groups	Business Group	High	Business Group	Low
	Percentages				
New proprietorship	13.0	Service station	19.1	Shoe repair and trucking	4.5
White-collar job	15.7	Wholesale	35.0	Barber shop	4.4
Skilled labor	12.2	Garage	40.2	Clothing store	1.9
Semiskilled and unskilled labor	11.1	Trucking	24.3	Clothing store	1.3
Housewife	5.5	Beauty shops	29.3	Service stations; shoe repair; garage; trucking	0.0
Unemployed & retired	24.0	Grocery	32.2	Service station	15.3
Died	16.5	Barber shop	26.4	Service station	4.9

[a] Professional workers and men in armed services omitted because of small numbers.

TABLE 23

Occupations Following Proprietorships for Those in Business in 1900 and 1950

Percentage Distribution

Status after Leaving Business	All Proprietors: Men 1900	Men 1950	Women 1900	Women 1950
Paid occupations	24.6	36.2	6.4	17.6
Retired or unemployed [a]	25.9	17.7	36.7	49.2
No information [b]	49.5	46.1	56.9	33.2
Total	100.0	100.0	100.0	100.0
Total number of cases	374	741	109	136
Proprietors Employed After Proprietorship				
Proprietor of new business	39.1	28.7	28.6	29.2
Profession	3.3	2.3	–	12.5
Employees:				
White collar	25.0	29.8	14.3	45.8
Skilled manual	22.8	20.1	57.1	12.5
Semiskilled and unskilled	9.8	19.1	–	–
Total employees	57.6	69.0	71.4	58.3
Total proprietors	100.0	100.0	100.0	100.0
Total number of cases	92	268	7	24

[a] Including housewives.

[b] Including those who left the community and those who died; and for women those who married.

TABLE 24

Status of Poughkeepsie Businessmen Before and After Proprietorship

Percentage Distribution

Status Before Proprietorship	Status After Proprietorship: Total			Occupied				Not Occupied		
	Total	Occupied	Not Occupied	Proprietors	Skilled labor	Semiskilled and Unskilled labor	Other	Unemployed	Retired	Dead
Total	100	61.7	38.3	15.3	14.9	12.0	19.4	13.0	7.1	18.2
Occupied	100	62.8	37.2	15.6	14.7	12.5	20.1	12.1	7.0	18.1
Not occupied	100	50.0	50.0	12.5	6.8	13.1	17.5	23.0	8.1	18.8
Occupied:										
Proprietors	100	60.1	39.9	37.4	6.0	6.3	10.4	11.5	8.7	19.7
Employees in similar business [a]	100	58.1	41.9	8.3	21.6	11.5	16.7	10.4	8.4	23.1
Skilled workers	100	63.8	36.2	7.6	39.8	8.2	8.2	14.6	5.8	15.8
Semiskilled and unskilled workers	100	66.1	33.9	10.3	9.7	37.6	8.5	16.4	4.2	13.3
Other	100	71.8	28.2	12.1	6.1	8.1	45.5	12.4	4.3	11.5
Number of cases [b]	1825	1126	699	280	272	219	355	238	129	332

[a] Including those in business taken over.

[b] Those whose status before or after proprietorship is not known, and women excluded. It should be noted that 24 of the 38 women unemployed before going into business were unemployed afterward; and 9 of the 22 coming from other proprietorships went on to other proprietorships after the business was closed.

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The Private Companies and A Public-Power Paradox

The Nebraska public-power paradox is more than a case study of the elimination of private enterprise. It illustrates how, in a seemingly homogeneous economic setting, familiar social, political, economic, and geographic factors can blend uniquely to produce a nonconformist entity, explicable only in terms of its history.

Nebraska, a strong Republican state and a firm supporter of private enterprise, is the first and only public-power state in the Union. Understandably, there has been widespread curiosity beyond the boundaries of Nebraska concerning this puzzling paradox, which became a reality during the late depression and early war years. The businessman and the business historian should be interested in the explanations of this unique development, especially the circumstances in which the private companies gave way before the public movement.[1] To what extent, if any, were the private companies to blame for their own demise? Did they fail to appreciate adequately the full market potentialities of this agricultural state? Were their services inadequate and their charges too high? Were they guilty of other economic and political blunders serious enough to destroy their investments? Or, were greater forces at work in the environment, producing challenges that the private companies could not meet? More specifically, what were the geographic, demographic, economic, and political forces? How strong were these latter forces? Were they not similar to forces in the neighboring states of Kansas and South Dakota which still retain very substantial private power mixed with local municipal operations?

It is the purpose of this article to relate the history of the private-power industry in Nebraska to the public-power development in

[1] I am indebted to Professor Charles J. Kennedy who suggested this topic and read the original study completed in his economic history seminar at the University of Nebraska. Professor Harry Trebing, Public Utility economist at the University also read and criticized the original study and this article.

an effort to answer the questions just raised. The power histories of Nebraska thus far written have been primarily concerned with the public-power development, with only incidental observations on the private-power situation which preceded it.[2] The primary emphasis of this article, therefore, will be upon the private-power involvements. The material used here was obtained from interviews with some of the participants,[3] the private papers of former Attorney General C. A. Sorensen, and newspapers, as well as various reports and studies.

The Market Classification

Before analyzing the private-power companies which were sold to the publicly owned districts, it is appropriate to examine the Nebraska power markets and their evolution. The power markets, as they existed before 1940, may be divided into three types: (1) the metropolitan market of Omaha and surrounding territories; (2) the rural-urban markets of northeast, east-central, and southeastern Nebraska, plus an isolated segment at Scotts Bluff in extreme western Nebraska; and (3) the rural markets of north-central and western Nebraska.

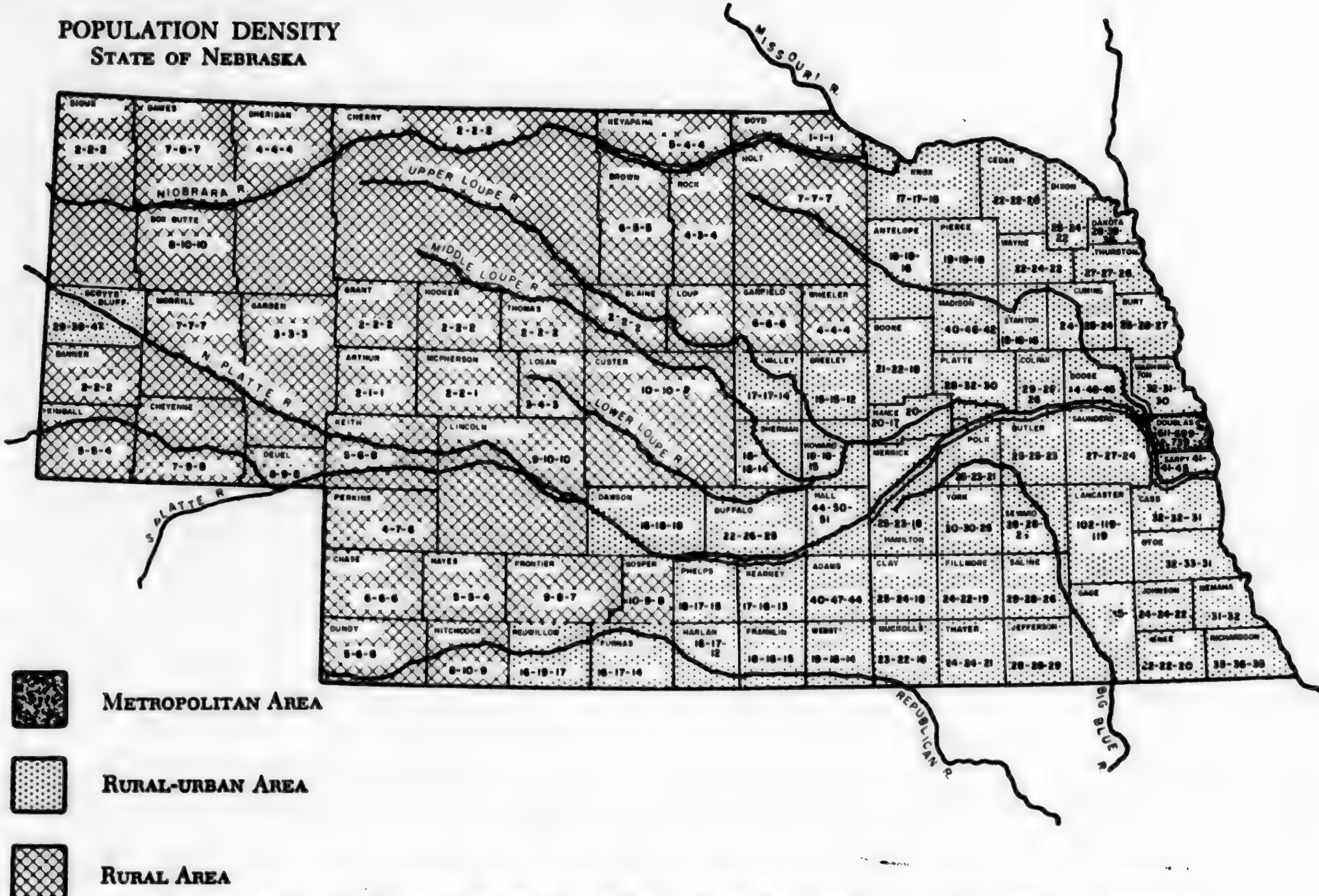
The accompanying population-density map justifies this classification. Only Douglas County, in which Omaha is situated, had a density of 600 or more persons per square mile in 1940. Further, it was a population which was growing rapidly as revealed in the respective census figures for 1920, 1930, and 1940. No other county in the state has ever approached those density figures, and only Lancaster and Scotts Bluff counties have had a rate of growth approximating that of Douglas County. Certainly, this area stands out as a power market with great varieties of industrial and consumer interests providing strong potential diversity and load factors for efficient power production and distribution.[4]

[2] See, for example, Clarence Earnest McNeill, *Municipal Electric and Water Systems in Nebraska* (Nebraska Studies in Business No. 41, University of Nebraska, Lincoln, 1938); Gene E. Hamaker, *Irrigation Pioneers: A History of the Tri-county Project to 1935* (Ph.D. Thesis, University of Nebraska, 1958); Robert C. Firth, "Power on the Plains" (Ph.D. Thesis, University of Nebraska, 1960), to be published by the Nebraska Press.

[3] Chief among the men interviewed were C. C. Sheldon, retired treasurer of the Consumer Public Power District and the man for whom the atomic energy plant at Hallam, Nebraska, was named; R. W. Beck of Beck and Associates who appraised the private companies for Consumers Public Power; and Frank Wolf, presently with the Omaha Public Power District, but formerly with the Nebraska Power Company.

[4] Martin G. Glaeser, *Public Utilities in American Society* (New York, 1957), p. 174, defined the *diversity factor* as "the ratio of the sum of the maximum power demands of the subdivisions of any system, to the maximum demand of the whole system, or the part of the system under consideration, measured at the point of supply." The *load factor* is defined (p. 173) as "the ratio of the average power (average load) used to the maximum power (peak) used during a certain period of time."

POPULATION DENSITY
State of Nebraska



Numbers in each county indicate persons per square mile: 1920, 1930, 1940 respectively.

Source: *Blue Book*, 1950, Nebraska Legislative Council.

In the rural-urban area, Lancaster County (including the City of Lincoln) excepted, typical density figures range from 12 to 40 persons per square mile. This is roughly the long-grass prairie country of Nebraska, where rich, dark soil is found. Numerous towns dot the landscape. Corn production, mixed farming, and cattle feeding dominated most of the economic life of the area before 1940. From the power point of view, a combination of town and country demands of substantial populations provided reasonably favorable diversity and load factor potentials, though power service involved longer transmission lines and relatively fewer feeder taps per mile of line than in the Omaha market. Nonetheless this market area would appear to have been a reasonably profitable one. However, the population trends prior to 1940 gave little promise of much growth in the area. Indeed, most of the counties of the area experienced an actual decline of population in the drought and depression decade. Further, this area had experienced drought and farm-price declines more than once since pioneer beginnings. These were serious economic problems and limitations of this market situation.

To the west and north, population densities fell off markedly. No county had more than ten persons per square mile in 1940. In the Sandhill area of west-central Nebraska, several counties had only one or two persons per square mile. Grazing and haying were, and still are, the principal economic activities. Much surface and subsurface water here has stabilized economic life and populations. To the west and southwest of the Sandhills, wheat farming and grazing activities prevailed, but the extensive nature of these undertakings seldom yielded population densities of more than six or eight. This was the rural power market. Long transmission lines with relatively few service leads were required if any substantial market was to be established.

Engineers Glen Boyer and Marion Crist have provided some interesting estimates of transmission-line costs in 1933. Their estimates were based on depression prices in southeastern Nebraska and therefore were very conservative when compared with construction and maintenance costs on the high plains of the rural market where high winds and winter blizzards are problems. They estimated the construction costs at approximately $700 per mile. Further, they estimated that average annual revenues needed to meet all the costs during the life of their projected line would have to be between $250 and $300 per mile of line and that, under these conditions, only lines with three or more customers per mile could

provide energy at rates commensurate with the value of the services rendered.[5] If these estimates were at all accurate, the rural market area must have been marginal or even submarginal in many sectors of these high-plateau steps to the Rocky Mountains and the Black Hills.

The Developmental Phases

The private-power history of Nebraska may be divided into three developmental phases: (1) an introductory period characterized by much technological change and rapidly increasing demands, between 1882 and 1914; (2) a period of consolidation climaxed by the entry of the big inter-regional holding companies from 1914 to 1929; and (3) a period of stabilization and decline from 1929 to 1949.

The introductory phase of development occurred primarily in the metropolitan market of Omaha. Even in this most favorable of the potential markets, there were real obstacles to be overcome before the industry could be firmly entrenched. The technology of power production was changing rapidly and obsolescence was a costly matter to companies like the Northwestern Electric Light and Power Company, organized in 1882. The problem was intensified because the Omaha market attracted so many competitors, at least 29, according to a preliminary study. Obviously, a natural-monopoly industry like power could not prosper with that kind of competition. By 1889 the Thompson-Houston Electric Company, with the help of funds from General Electric, succeeded in bringing most of the power interests in Omaha under its control.[6] Still, the rapidly developing market called for even larger investments in production and distribution facilities. Interest rates on borrowed capital were high, and construction contractors, operating personnel, and managers were inexperienced and expensive. These problems were not adequately met until the postwar period when the holding companies entered the Omaha picture.

The consolidation-period developments began after World War I. Local consolidations and simply structured regional combination holding and operating companies were formed to exploit the rural-urban market. The development was well under way by 1923, at

[5] Glen C. Boyer and Marion L. Crist, "Economics of Rural Electrification," *Nebraska Municipal Review*, no. 135 (Aug., 1935). These authors were in the employment of the Burns and McDonnell Engineering Company.

[6] William Schwalm, "Electric Companies in Omaha, 1872–1917," p. 1. (A term paper, based upon newspaper clippings, in the possession of Professor Kennedy, University of Nebraska.)

which time the national holding companies began to buy the common stock of some of these local combinations.

The rural market expansion began about 1924 and involved the services of the large, national holding companies. It was here that their organization was most complicated, reflecting, in part, the difficulties of financing power development in marginal areas.

While the private consolidations were taking place, many of the municipalities were developing their own power generation and distribution systems. Competition between municipal interests and private companies became very keen in the rural-urban markets. It was competition that extended beyond the markets into the legislature and the courts of the state.

The period of stabilization and decline of the private companies commenced with a combination of adverse laws and court decisions. Depression, drought, and national political developments added to the pressures which helped to bring the private-power era to an end. These developments will be reviewed in a later section of this article.

The Companies: Structural and Functional Aspects

The first big holding-company invasion of Nebraska occurred at Omaha in 1917 when the Nebraska Power Company was chartered under the laws of Maine to take over the properties of the Omaha Electric Light and Power Company which had served the metropolitan market since 1903. The Nebraska Power Company was under the control of a Maine holding company, The American Power and Light Company. This company, in turn, was under the control of the Electric Bond and Share Company, which was to become one of the targets of United States Senator George Norris.

According to Frank Wolf, who was an official of the Nebraska Power Company, the Omaha Electric Light and Power Company was facing difficult, but by no means unsolvable, problems. General Electric was pressing for settlement on equipment credit it had granted. Expanding population and industrial demands called for sizable long-range investments when investment funds were difficult and expensive to obtain. Finally, engineering, construction, and administrative services were dear and inadequate.

On the other hand, the long-range profit prospects were inviting to the holding companies which could and would provide investment funds and specialized engineering, construction, and administrative services. It was these mutual interests which brought

the big holding companies to Omaha at this critical period in the growth of the industry.[7]

The expectations of the holding companies seemed justified by 1929 when the Nebraska Power Company, serving 66,542 customers, had net operating earnings of $2,963,701. The item, *times fixed charges earned*, stood at 3.06; the average *times* figure since 1923 was 2.855. The different bond issues enjoyed Aa, Aa, and A ratings in the Moody appraisals.[8]

In the rural-urban area, the only comparable affiliation of local and national interests based upon the dynamic growth factor came at Lincoln in 1927 when power properties of that area were acquired by Iowa-Nebraska Power Company, a Delaware Corporation created to consolidate power operations in Iowa and Nebraska. The common stock of this company, in turn, was held by the Continental Gas and Electric Company, another large holding company.

The income accounts cited by *Moody's* reveal that in 1929 the Iowa-Nebraska firm, serving 67,167 customers, had net earnings of $1,786,287. *Times interest earned* was 2.20. Its bonds were rated Baa, Aa, A and Baa. Power men recall this company as one of the better-managed companies in the state.[9] Growth was strong, but it was not the problem-creating factor it was in the Omaha area.

More typical of the companies operating in the rural-urban market were firms like the Southern Nebraska Power Company, The Central Power Company, and the Central States Electric Company. These companies represented either local consolidations of equipment and markets, or regional, combination operating and holding companies established either in 1914 or 1915. Not until 1924 did they begin to come under the big holding companies.

The Southern Nebraska Power Company was established in 1914 under Nebraska Law. In 1929 it served 30 communities in south-central Nebraska. The income accounts and balance sheet appearing in *Moody's* reveal that in 1929 the small company was performing reasonably well according to some of the more important standards set for public utilities by investment bankers at this time. The gross income yield per capita of population served by this intertown operation was $14.00 by comparison with a standard of $10.00 suggested for small-town companies.[10] The item, *times fixed charges*

[7] Interview with Frank Wolf, April 18, 1960.

[8] *Moody's Manual of Investments American and Foreign: Public Utility Securities* (Moody's Investors Service: New York, 1930). The bond rating Aaa is the highest given by Moody's. Bonds rated Baa make a good showing but must be watched more closely than A-rated bonds. Ba bonds have some characteristics of uncertainty.

[9] Interview with C. C. Sheldon, March 12, 1960.

[10] Arthur Stone Dewing, *The Financial Policy of Corporations* (New York, 1934), p. 330.

earned, was 2.16, and had stood at 2.17 and 2.38 in the two preceding years. This return was not untypical of those for most of the prairie-states companies of this time. The company had an *operating ratio* of 61 when a ratio of 65 was considered good.[11] Depreciation allowances seemed adequate, much more so than in most Nebraska companies. The depreciation ratio was 11 per cent, very close to the 12½ per cent standard widely accepted at this time. It is true that the company did not begin paying common stock dividends until 1921, but thereafter its annual dividend payments averaged close to 8 per cent. Finally, *Moody's* rated the bonds of this little firm, Baa.

These statistics seem to indicate at least a moderately successful utility performance, considering the relatively small number of customers it served in a predominantly agricultural environment where potential *diversity* and *load factors* would not be high. These figures, therefore, are being set up as standards to compare the other two firms cited above. Incidentally, this company did not come into the holding-company net until the Great Depression.

The Central Power Company was chartered under Delaware law in 1914 and bought up power, gas, and water utilities in central Nebraska around Kearney and Grand Island. In 1924, the Central Power Company came under the control of the Midwest Utilities Company and the Insull interests.

The Central States Electric Company was one of the enterprises providing power to northeast Nebraska. This Nebraska firm was controlled by the Central States Electric Company of Iowa. The latter concern was a combination operating and holding company serving communities in Iowa and Minnesota as well as Nebraska. The statistics summarized in Table 1 are for the entire tri-state operation. The performances of these companies are compared with those of the Southern Nebraska Power Company.

The three companies in Table 1 are typical of the others found in this market. They appear moderately successful. It was some time after operations began that common stock dividends were paid. Sooner or later these companies came under the control of the large holding companies. Each company required a full complement of operative and administrative personnel. Indeed, the view of later public power advocates was that there was too much unnecessary duplication of personnel and equipment, presenting an especially serious situation in view of the limited markets which were served.

[11] *Moody's Manual of Investments* defines the *operating ratio* as "the margin between gross and net operating revenue after deducting operating expenses and taxes." It is here described as a measure of operating efficiency.

It was little wonder that any encroachment from municipal power was vigorously opposed by the private interests in this rural-urban market area.

Out in the marginal rural markets, the population was small and widely scattered. Long transmission lines, tapped by very few

TABLE 1

COMPARATIVE PERFORMANCE RECORDS

Company	Customers	Operating Ratio	*Times Charges Earned*	Dividend Payments Common Stock	Bond Ratings
Southern Nebraska Power Company	3,355	61 (before depreciation deducted)	2.16	8% annually 1921–1929	Baa
Central Power Company	12,845	66.55	2.27	No dividends until 1928 when 4% paid, 4% was paid in 1929, also	Baa
Central States Electric Company (Iowa)		58.74	2.10 (*Times Interest Earned*)	Dividends paid regularly ranging from 4% to 7¾%	Baa, Ba and Ba

SOURCE: *Moody's Manual of Investments: Public Utility Securities 1930.*

customers, were expensive to construct and to service; potential diversity and load factors were very low. There were few if any investment interests other than the large holding companies which could tie effective markets together, and even the holding companies had to reinforce each other. Also, of course, there were other, more speculative motives for these complex business organizations.

Three important and typical companies predominated in this market. All three were parts of complex holding company interests.

The Nebraska Light and Power Company, chartered under Delaware law in 1924, served the McCook area in southwestern Nebraska. This company came under the Consolidated Power and Light Company of South Dakota, which also controlled the Gothenburg Light and Power Company operating southeast of North Platte. In turn, Consolidated was controlled by General Public Utilities which was part of the still larger American Power Company.

The Interstate Power Company of Nebraska, which operated along the northern border of the state, was absorbed by the Interstate Power Company, a large holding company. The latter company, in turn, was under the Utilities Power and Light Corporation, a Virginia enterprise controlling scattered properties from Maine to Oklahoma.

In the Panhandle area of Nebraska, the Western Public Service

Company was created in 1929 to consolidate municipal and other properties there. It also acquired scattered properties in Colorado, Kansas, Missouri, and Iowa. This company was a constituent of the Eastern Texas Electric Company. Both of these companies were constituents of Engineer's Public Service, and all were under the control of the Stone and Webster interests in New England.

The only operating data available on these companies for Nebraska activity are for the Nebraska Light and Power Company. In 1929, it served 1,843 customers. The *operating ratio* was 56.92 and *times fixed charges earned* was 3.28. The bond rating was Ba. There are no separate data on common stock dividends, all of which were owned by Consolidated Power and Light Company of South Dakota.

Thus it was that a major part of the private-power industry of the state came by 1930 under the interstate holding-company movement, where it was to be weakened by the twin forces of depression and federal regulative legislation placed upon the utility holding companies in the 1930's.

The Companies: Market and Political Aspects

One of the most serious challenges the private companies faced, especially in the rural-urban market, was the rise of municipal power plants. After World War I, there were increasing demands for the magic of electrical energy in every town and hamlet of the state. Impatient with the slow spread of private-power lines into uncertain markets, increasingly large numbers of towns turned to producing their own electricity with equipment supplied by Fairbanks-Morse. Indeed, this growth became substantial after 1912 when 85 towns boasted of their own plants. By 1924, 282 towns were in this group. The period, according to the late Attorney General C. A. Sorensen, witnessed the development of 81 per cent of all municipal plants ever to exist in Nebraska. Nebraska became a leader among the states of the Union in the adoption of municipally owned power plants.

The expansion was not limited to areas the private companies did not serve. The success of several of the municipal undertakings, especially in reducing the costs of the power to the consumer, prompted towns in the service areas of the private companies either to withdraw from the private net or to threaten to do so as a means of gaining rate concessions from the private companies. Between 1925 and 1930, the municipal expansion was abruptly halted, as

economic, political, and legal conflicts between the private and municipal competitors emerged.

In the market, the private companies resorted to two important countermeasures. The first was to buy out municipal generating and distribution equipment. For example, towns around Fremont had built transmission lines to the municipal plant of this city. It was alleged that the private companies purchased some of the lines, paying the towns two or three times the actual value of the properties. Arlington, it was said, received $40,000 and a new fire truck worth $4,000 for property worth only $16,000.[12] The second countermeasure of the private companies was to build transmission lines from which towns might purchase power at wholesale for distribution to their citizens. According to Professor C. E. McNeill, a large number of towns stopped generating power and began purchasing it wholesale from the private companies. By 1936, 17 per cent of the current distributed by the municipalities was produced by the private companies. In these ways, Professor McNeill found that the private companies reduced the municipal systems by more than 33⅓ per cent.[13]

In northeast Nebraska, the Interstate Power Company resorted to a form of competition of questionable legality to discourage municipal power at Hartington when the municipal plant was ready for service. Interstate cut its power rates to Hartington residents to a figure 3 cents per kilowatt hour below that of the projected rate of the new plant. Attorney General Sorensen charged that this was an illegal attempt to crush competition and was in direct violation of the anti-discrimination statutes of the State of Nebraska. Judge Mark Ryan enjoined Interstate from making this cut, holding that rates the company was offering were below the costs of service, and were illegal means of destroying competition. On July 23, 1927, the Supreme Court of Nebraska upheld the legality of a permanent injunction issued against Interstate.[14]

On the other hand, the private companies were also aided in their competition with the municipalities by various legal restrictions on the latter, especially those on second-class cities of the state. These cities could not extend transmission lines more than 15 miles beyond their city limits. There were also restrictions on annual borrowings

[12] *Hastings Tribune*, Feb. 18, 1930, an editorial raising the question whether or not the Hastings, Nebraska, municipal plant might face similar competition.

[13] McNeill, *Municipal Systems*, p. 10.

[14] The full text of this decision may be found in the *Nebraska Municipal Review*, Nos. 63 and 64 (Aug. and Sept., 1929). "Recent Important Court Decision in Electrical Controversy," *Nebraska Municipal Review*, No. 37 (June, 1927), the story of events and early court action in this controversy.

for the construction of these lines. Further, bonds could not be issued against earnings of their plants, and there had to be annual contracted gross earnings from the prospective customers of these lines to equal 15 per cent of the total costs of construction.[15]

The private companies, in effective lobbying and political action, successfully opposed any relaxing of these restrictions until 1930, except for one major setback at the hands of the courts. On December 18, 1929, the Nebraska Supreme Court upheld the legality of a contract in which the city of Sargent had pledged its plant revenues to obtain badly needed equipment.[16]

The following year, however, an even more important development took place when the Nebraska League of Municipalities under the leadership of C. A. Sorensen and E. M. Beals, formed the Peoples Light and Power Association. This organization successfully obtained enough petition signatures to put an initiative measure on the ballot that year, which would lift most of the legal restrictions imposed upon the municipalities. For several years the private-power interests had defeated legislation along these lines, as just noted, but these successes were suddenly brought to an end when the voters passed the measure, known as Initiative 324, by a vote of 240,579 to 89,205.[17]

Thus it was that two important court decisions limiting the competitive power of the private companies in the market and a major defeat in the political arena brought the private-company counter-offensive against the municipalities to an end, and the market division between the two became stabilized. The decline in municipal operations which had been continuing since 1925 stopped; on the other hand, only one or two new municipal plants were built in the next five years. Depression and political uncertainty at the national level also stabilized private operations. By 1937, it became evident that a pattern was established in which the private interests were producing 85 per cent of the electrical power of the state and the municipalities were producing the remaining 15 per cent.[18]

In the absence of great forces which drought and depression put in motion in the 1930's, it would seem likely that approximately the

[15] McNeill, *Municipal Systems*, p. 31. Constitutional reference, *Compiled Statutes of Nebraska*, 1929, chapter 16, article 6, 16–656 to 659.

[16] "Effects of the Sargent Case on the Electrical Development of Nebraska," *Nebraska Municipal Review*, No. 70 (March, 1930).

[17] *Official Report of the Nebraska Canvassing Board on the Election of November 4, 1930*, p. 5. For an interesting account of private-power attempts to frustrate this petition by circulating a couple of petitions of their own, see newspaper clippings in C. A. Sorensen's *Scrap Book* (running through several volumes), part of the Sorensen papers at the Nebraska State Historical Society Library.

[18] *Electrical Light and Power Census of the Electrical Industry* (1937), Table 34, p. 55, U.S. Department of Commerce, Bureau of the Census.

same pattern of private and municipal production might have prevailed. Probably, the municipalities then would have had enough power to expand and furnish enough competition to hold down the rates of the private interests in the manner of the Hartington Development. This would have been a situation not unlike that found in Sweden where cooperative business, representing about 15 per cent of the total business, acts as an effective check upon monopoly pricing.[19]

The Companies: Appraisal

It should be clear that there was no demise of the private-power companies in Nebraska prior to 1930. Competition between the private- and municipal-power producers was spirited in the markets, the legislature, and the courts, but it had proved ruinous to neither interests, though the municipal plants had lost considerable ground after 1925 and before the stabilization.

It is probably true, though difficult to establish, that the private companies weakened themselves politically in the state by: (1) bribery — inducements to small towns to shift their transmission lines from municipal-power to private-power sources as illustrated in the Arlington incident, which gained editorial comment in the Nebraska press;[20] (2) unfair rate competition in northeastern Nebraska leading to a state Supreme Court intervention; and (3) persistent legislative lobbying, especially in House committees, to prevent relaxing of laws limiting municipal-power distribution. With respect to these latter activities, Attorney General C. A. Sorensen expressed the opinion that they helped create political reaction which paved the way for the unicameral legislature later instituted in Nebraska.[21] It should be obvious, however, that these economic and political developments did not seriously undermine existing private-power investments in the state prior to 1930.

There is some evidence that high power rates charged by private-power companies did invite municipal competition in some areas of the state. In 1925, for example, when Bloomfield, Nebraska (northeastern Nebraska), was debating whether or not to establish a municipal plant to replace private-power sources, officials of the private company made substantial price concessions, offering to sell 191,000 kilowatt-hour of power at an average rate of 10 cents per kilowatt. J. S. Dart, then Mayor of Bloomfield, recalls this as the

[19] Hudson Strode, *Sweden: Model for the World* (New York, 1945), pp. 190 ff.
[20] Editorial, *Hastings Tribune*, Feb. 18, 1930, previously cited.
[21] C. A. Sorensen, *MSS 2951*, p. 3, Sorensen Papers, deposited in Nebraska State Historical Society Library.

first rate concession the company had made to the city.[22] Bloomfield, however, built its own plant and supplied its customers with power above the third 100 kilowatt-hour of consumption at five cents per kilowatt. However, there is little evidence that either high rates or inadequate service were major stumbling blocks to the private companies, except in a few local areas before 1930.

A more important reason for the spread of municipal plants was that many communities, especially in the rural market, were not being served by the private interests. Towns and farms not located near the transmission lines of the private companies had no other choice if they were to enjoy electrical power. As engineer Robert Beck expresses it, the private companies were interested only in the "cream" of the rural demand in a state where most of the rural demand was "skimmed milk." [23] In economic terms, these markets were submarginal in terms of the private-power technology and organization.

In fairness to the private interests, however, it should be pointed out that the municipal plants also ran into economic limitations in expanding their services to the widely scattered farms of the rural market (note the Boyer and Crist estimates of transmission lines costs previously cited). The present concept of rural electrification with major power-production concentration and wide distribution still awaited the T.V.A. development and would be on a scale beyond the scope of the individual private companies operating in the state.

It should be noted, however, that Mr. C. J. Strike of the Northwestern Public Service Company, after T.V.A., did suggest to the other private companies of the state the possibility of creating a unified private-power network in Nebraska to better serve the agricultural interests of the state. His recommendations were ignored by his associates.[24] They probably came too late, as the holding companies were breaking up.

Thus, neither the municipal nor private plants were in a position to meet the growing demand for rural electrification. This was a most serious limitation in Nebraska where agriculture is the major industry. How was this all-important need of Nebraska farmers to be met? Attention is now directed to the great natural and institutional forces which were to be combined under the pressures of depression to meet this urgent need for rural power.

[22] J. W. Dart, "Interesting Story of Bloomfield's Municipal Light Plant," *Nebraska Municipal Review*, No. 32 (Jan., 1927).
[23] Interview with Robert Beck, March 31, 1960.
[24] *Ibid.*

Drought and Depression

The farmers of Nebraska had been in an economic depression since 1921. Many were weighted down with heavy fixed charges on inflated postwar land and capital purchases. Depressed farm prices, subsequent to 1929, intensified this problem. Further, the farmer's situation was being complicated by another old enemy, drought. One needs only to look at the population-density map to see the impact of the drought of the 1930's on the agricultural populations of the state.

For many years, concerned Nebraskans had been trying to devise plans and raise the funds for utilizing the running water of the state to alleviate periodic drought seasons. These plans were by no means beyond practical implementation, for Nebraska is more abundantly endowed with rivers capable of supporting irrigation than either of its Great-Plains neighbors to the north and the south. The North Platte and the South Platte rivers, rising in the Rocky Mountains, join forces in the western part of Nebraska and move eastward through the heart of the state to join the Missouri River on the eastern border of the state just below Omaha. Near Columbus, Nebraska, in east-central Nebraska, the Loup systems of rivers arising in the Sandhills join the Platte. The Loup system is widely recognized for its steady flow of water over time. The Niobrara River runs roughly parallel with the Platte across the entire northern part of the state and provided some of the early private hydroelectric power of the state.[25] The Republican River runs in an east-southeasterly direction through south-central Nebraska and so into Kansas. The Little and Big Blue Rivers move in a southeastern direction from central Nebraska into the northeastern corner of Kansas.

R. E. Babcock of Columbus was among the early leaders who sought to utilize these streams in meeting the drought problem. As early as 1890, he prepared plans for utilizing the steady flow of the Loup River around Columbus to produce both irrigation and electrical power, the latter to help finance the irrigation project.[26] More recently, in southern Nebraska, a Tri-County Project group was attempting to convince the federal government of the possibilities of combining irrigation and hydroelectric power to strengthen agriculture in this area.[27] With the advent of the New Deal and the T.V.A.

[25] The Interstate Plant at Spencer, Nebraska. According to Moody, the Central Power Company also had hydro plants at Kearney on the Platte, and Boleus on the Loup.

[26] Interview with C. C. Sheldon, March 12, 1960. See Firth, *Power on the Plains*, for a fuller account of the Babcock endeavors.

[27] See Hamaker, *Irrigation Pioneers*, for a full account of this project.

in Tennessee, Senator George Norris began advocating a littleT.V.A. for Nebraska.

In 1932, C. A. Sorensen returned from Washington, D. C., with the news that the Reconstruction Finance Act had been amended to permit public groups to borrow very substantial amounts of money for irrigation and hydroelectric projects, provided individual states would authorize public groups to accept and utilize the funds. Sorensen immediately set in motion, by means of an act known as Senate File 310, the legislative wheels necessary to create these public districts in Nebraska.

Meanwhile, in Columbus, Phil Hockenburger and Harold Kraemer, thinker and promoter, respectively, revived the old Babcock plans and proceeded to organize the Loup District. Former Governor Keith Neville helped to initiate a similar district at North Platte, while the Tri-County people intensified old efforts to create a district in southern Nebraska. All this planning would have come to naught without the passage of Senate File 310, however.[28]

Local and national power interests lobbied extensively, but in vain, to defeat the bill. In this lobbying, however, it became apparent that the private companies had another ace in reserve. These companies expected that the proposed hydroelectric plants would find it difficult to establish adequate markets for their power, especially if the private companies would agree to buy the hydroelectric power only on a *dump* basis.

As a matter of fact, the public-power districts were also aware of this problem. If it could not be solved, they might be forced to sell out to the private interests on very unfavorable terms.

Two forces were at work on the national scene, however, which were to help greatly the public-power districts. The first was the depression which had seriously weakened or destroyed many of the superholding companies in the industry. Further, the Federal Trade Commission had raised serious questions about the ethics and social justification of these organizations, and, in 1935, the Public Utility Holding Company Act was passed forcing these companies drastically to simplify their structures,

Thus it was that the holding companies needed to sell most of their Nebraska interests on the best possible terms they could. This situation provided a golden opportunity for the Nebraska public-power districts to buy out the private interests, provided that they could raise the necessary funds. The districts, however, were in

[28] Interview with C. C. Sheldon, March 12, 1960, also interview with Sheldon and Beck, March 31, 1960.

debt to the federal government, which had a lien on their future revenues. The districts had little else to offer as collateral in the private money markets.

It was at this juncture that J. D. Ross, then a member of the Securities Exchange Commission, and affectionately referred to as the "Father of City Light," recommended to the Nebraska districts that they set up a new district (the Consumer Public Power District) to raise the necessary funds in the private money markets to buy out the private companies and provide the markets for the hydros. He further recommended that broker Guy C. Meyers be employed to sell the bonds of the proposed district on the private market, a difficult task at this time. He also recommended that Engineer Robert Beck be employed to evaluate fairly the properties of the private companies. Both of these men had helped Ross when Seattle came under public power and were respected by both public and private interests.[29]

The recommendations were successfully implemented, and thus the Consumer Public Power District became the wholesaler for the hydroelectric plants. One company after another was purchased. By 1943, only the profitable Nebraska Power Company at Omaha remained in the private-power domain. This company has since been converted into the Omaha Public Power District.

The Paradox

It now becomes apparent that great external forces, beyond the power of the private companies to control, precipitated the development of public power in Nebraska. Depression and drought produced the vital needs for irrigation and rural electrification, and these needs the private companies could not meet. At the same time, the limited Nebraska power markets had involved most of the state in the web of the great holding companies, which fell before the depression and federal legislation. Thus, the relatively small local companies using fossil fuels to supply power were at the mercies of the hydro districts which produce electricity with relatively cheap water power, and which had the potential to unite the Nebraska power market into more efficient markets capable of serving town and country with a minimum of duplicated effort in operations and administration.

None of this development would have been possible, however, except for the fact that Nebraska had significantly more hydro-

[29] *Ibid.*

electrical potential than her Great Plains neighbors to the north and south. Little of this potential, of course, could have been realized without farsighted public-power men, federal funds, and the federal and local legislation which made the public-power districts possible.

The principal private enterprise in Nebraska was agriculture, and this was threatened. The public-power districts provided one important means of preserving and making more efficient and effective this great private-enterprise undertaking. This is the explanation of the public-power paradox in Nebraska.

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J. B. Moussier and the Property Banks of Louisiana*

The property bank, an ingenious new institution that provided badly needed capital for southern mercantile and agricultural operations, appears to have been the creation of one man's imagination. It is ironical that he died in financial embarrassment, leaving behind few clues for the curious historian.

In New Orleans in the late 1820's there appeared a new form of banking institution. This was the property bank, more often, if inaccurately, called the plantation bank. It differed from the other state banks of its day in that its capital was raised not by the sale of stock but by the sale of bonds that were secured by a pool of stockholders' mortgages. It differed from the colonial land bank (which merely issued bank notes on the security of mortgaged estates), in that the nineteenth-century institution had a working capital of specie and the means of extending commercial credit. The importance of the property bank was that it provided a method of expanding capital and credit in an area that was chronically short of both, available local funds being insufficient to foster a significant growth of agriculture and to facilitate the sale of large amounts of produce in distant markets.

The first property bank was the Consolidated Association of the Planters of Louisiana, chartered in 1827. Shortly thereafter two other banks of the same description were to be found in New Orleans: the Union Bank of Louisiana, chartered in 1832, and the Citizens' Bank, dating from 1833. During the latter year, the first property bank outside Louisiana was established in the Territory of Florida. Ultimately, at least two other southern states in addition to Louisiana – Arkansas and Mississippi – were to grant charters to such institutions.[1]

* A faculty fellowship from the Social Science Research Council made possible the author's research on this subject.

[1] The principal sources of information about the property banks are Emile Philippe Grenier, "Property Banks in Louisiana" (Ph.D. Thesis, Louisiana State University, 1942), and Fritz Redlich, *The Molding of American Banking: Men and Ideas* (New York, 1951),

Stock in a property bank was obtained by an owner's giving a mortgage on his land and slaves, or on his city real estate. Bonds of the institution, the payment of which was secured by such mortgages, were then to be sold for the purpose of raising capital. Such was the theory, at least. In practice, before investors would purchase the bonds, it was necessary for the state to guarantee their payment or to issue its bonds in favor of the bank. Once the faith of the state was pledged, some $17,000,000 of bonds were sold, mostly in Europe, by the Louisiana property banks alone.[2] Thus in the 1830's the property banks were an important instrument for the channeling of foreign capital into the United States.

Stockholders in the property banks had first claim on the banks as borrowers. They were usually entitled to loans up to 50 per cent of the par value of their stock. Loans of this type, however, remained during the early years, at least, well below the legal maximum, for the total credit that a given institution's stockholders could obtain was limited to something less than the amount that the bank realized from the sale of its bonds. This was to assure the bank of funds to initiate other banking activities.

Once in operation, property banks were indistinguishable from ordinary stock banks that served the commercial community. Like their neighbors, the property banks issued bank notes, accepted deposits, and discounted commercial paper. Like their neighbors, they were in business to make a profit. Profits of a property bank were to accumulate in a sinking fund and together with the repaid stockholders' loans were to be used for the redemption of the bank's bonds at maturity. Usually the maturity of such an institution's longest term obligations coincided with the termination of its charter.

Credit for the ingenious scheme of the property banks was given by his contemporaries to Jean Baptiste Moussier of New Orleans. Hughes Lavergne, the first comptroller of the Consolidated Association of the Planters of Louisiana, writing from London in September, 1828, to report the imminent sale of a sizable portion of the

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Part I, pp. 205–208, 297–298; Part II, pp. 33–34. See also Ralph W. Hidy, *The House of Baring in American Trade and Finance: English Merchant Bankers at Work, 1763–1861* (Cambridge, Mass., 1949), pp. 96, 110–112; Ralph W. Hidy, "The Union Bank of Louisiana Loan," *Journal of Political Economy*, vol. XLVII (April, 1939), pp. 232–237; and Robert E. Roeder, "Merchants of Ante-Bellum New Orleans," *Explorations in Entrepreneurial History*, vol. X (April, 1958), pp. 119–120, 122. The extant records of the Consolidated Association of the Planters of Louisiana, incomplete but extensive, are in the Department of Archives, Louisiana State University, Baton Rouge, Louisiana. Records of the Citizens Bank are to be found among the Canal Bank Papers, Archives Division, Howard-Tilton Library, Tulane University, New Orleans, Louisiana.

[2] 25th Cong., 2d Sess., House Exec. Doc. No. 79, p. 670.

bonds that had been issued by the state in favor of the bank, remarked: [3]

> The inhabitants of Louisiana will, without doubt, be thankful to the man, as modest as he is able, who in the midst of all the obstacles, has furnished them with the most efficient means of augmenting their prosperity. You have guessed, gentlemen, that I wish to speak of Mr. J. B. Moussier.

In December, 1828, the directors of the Consolidated Association identified Moussier as the author of the bank's charter.[4] On October 31, 1829, they had occasion to refer to the services he had rendered the Association in presenting the plan of "*cet établissement*" and in furnishing the memorials and exhibits that were used to demonstrate the utility of the institution, presumably to the legislature.[5]

Very little is known of the modest and able Mr. Moussier, but fortunately that little is not without significance. *Paxton's New Orleans Directory for 1822* lists "John" B. Moussier as a merchant doing business at the corner of Burgundy and Maine [present Dumaine] streets.[6] It is also a matter of record that Moussier owned a sugar-cane plantation in what was known as the Ile de Barataria, south of New Orleans.[7] It would appear, however, that his principal interests were mercantile, that he maintained an establishment for his family in the city, and that he regarded his plantation as an auxiliary source of income (if, indeed, he received any income from it at all), not as the principal source. Moussier thus fitted into what was a well-defined social and economic pattern in Louisiana in the ante-bellum years, the merchants of New Orleans acquiring many of the plantations for miles above and below the metropolis through purchase, foreclosure, or marriage,[8] in much the same manner as English merchants and industrialists of the period were possessing themselves of landed estates in the British Isles. But the fact that a New Orleans merchant such as Moussier owned a plantation and upon occasion styled himself "a planter" should not obscure his paramount interest in things mercantile.

[3] Lavergne to M. Andry [President, and the Directors of the Consolidated Association], Sept. 6, 1828. The original of this letter, in French, is among the Consolidated Association of the Planters of Louisiana Papers (hereinafter cited as C. A. P. L. Papers). There is an English translation in Emile Philippe Grenier, "The Early Financing of the Consolidated Association of the Planters of Louisiana" (M.A. Thesis, Louisiana State University, 1938), pp. 136–137.

[4] Directors' Minutes, Dec. 21, 1828, C. A. P. L. Papers. The minutes are in French.

[5] *Ibid.*, Oct. 31, 1829.

[6] *Paxton's New Orleans Directory for 1823* repeated the listing, changing the spelling of the given name to the French "Jean."

[7] Directors' Minutes, Feb. 19, 1829, C. A. P. L. Papers.

[8] Roeder states that Moussier "married a Creole who inherited a plantation just outside of New Orleans." ("Merchants of Ante-Bellum New Orleans," p. 122.)

Most students of banking history, in writing of the "plantation" banks, have assumed that the impetus for this type of institution came primarily from the agricultural community. Robert E. Roeder, however, quite correctly includes the property banks in "the story of how New Orleans' *merchants* devised methods of increasing and controlling bank capital." [9] Although the request for a charter for the first of the property banks made its initial appearance in the Louisiana legislature in the form of a "petition . . . for the relief of the planters of this state," and Section 3 of the proposed act of incorporation (the work of Moussier, be it remembered), restricted stockholders in the Consolidated Association to owners of cultivated plantations,[10] these measures, it is suggested, must properly be regarded as well-conceived strategy designed to sell the proposal to the representatives from the rural parishes, who had a "natural" distrust of banks. A motion to reject Section 3, thus opening the way to the acquisition of stock in the Association by the owners of city real estate, failed by only two votes.[11] In the circumstances, the directors of the Consolidated Association apparently exercised their own discretion, looking to legislative approval of a *fait accompli*. In any event, a law of March 21, 1835, provided "that the securities given to guarantee shares in the capital stock of the consolidated association of the planters of Louisiana, on landed property, situated in the city of New Orleans and its suburbs, be and are hereby approved. . . ." [12] According to the terms of their charters, both the Union Bank of Louisiana and the Citizens' Bank were permitted to accept city real estate as security for stock in those institutions.[13] The debates in the House of Representatives at the time of the incorporation of the Citizens' Bank are very revealing of the support which the measure received from the New Orleans area and of the opposition which it engendered on the part of a number of "upstate" members.[14]

To say, however, that J. B. Moussier, in drawing up the charter of the Consolidated Association and preparing the necessary exhibits for the legislature, was acting primarily for the mercantile interests of New Orleans is to leave a good deal unsaid. What was his background? Where did he get his ideas? Was he one of the

[9] *Ibid.*, p. 119. (Italics supplied.)

[10] *Louisiana Senate Journal*, 1827 [French], p. 8. For the charter of the Consolidated Association, see *Louisiana Acts*, 1827, pp. 96–116.

[11] *Louisiana House Journal*, 1827, p. 64.

[12] *Louisiana Acts*, 1835, p. 123. An undated list of stockholders found among the C. A. P. L. Papers shows that 2,502 shares (of $500 each) were secured by city property, chiefly in New Orleans, and that 2,768 shares were secured by rural property.

[13] *Louisiana Acts*, 1832, p. 46; 1833, pp. 174–175.

[14] *Louisiana House Journal*, 1833, pp. 55–64.

"foreign French" (as distinguished from the Creoles of French ancestry) who made such a dynamic contribution to New Orleans society in the 1820's?[15] Had he been exposed in Europe to the theory of the Prussian *Landschaften*, agricultural credit institutions which one authority suggests may have served as models for the property banks?[16] Or had he, before settling in Louisiana, lived in a state that had had experience with land banks in colonial times? The answers to these questions are not known, but evidence that Moussier was responsible for the plan of the first property bank is abundant. He claimed this credit for himself and his claim was never disputed. Quite the contrary. Three tributes to the primary role which he played in conceiving and promoting the Consolidated Association of the Planters of Louisiana have been cited above. There were others.

From the incomplete evidence that has been uncovered, it would seem that Moussier's mercantile affairs were moving in the direction of disaster simultaneously with the launching of the Consolidated Association. The bill for the incorporation of that institution, as originally presented, included a most interesting section which, had it received the approval of the legislature, would have given Moussier a special position as borrower:[17]

> And be it further enacted, That whereas John Baptist Moussier has rendered services to the community, and principally in the creation of the consolidated association of the planters of Louisiana . . . , it shall be allowed to him a loan of this institution on his general note, for which he shall pay an interest, and at the expiration of three years, he shall reimburse said loan by five equal instalments payable yearly, so that at the end of eight years the whole be reimbursed with the interest.

This proposal barely failed of passage in the House of Representatives, the vote being 17 to 15. By such a narrow margin did the members of the lower house refuse to reward Moussier's ingenuity and labors, and, it is permitted to imagine, relieve him of pressing financial embarrassment. But the directors of the property banks of New Orleans, the men in the best position to appreciate the meaning of what Moussier had done, were not to forget him and were not to prove themselves ungrateful.

Whether or not Moussier's preoccupation with bank matters interfered with the proper care of his mercantile concerns, the fact was

[15] See Joseph G. Tregle, Jr., "Early New Orleans Society: A Reappraisal," *Journal of Southern History*, vol. XVIII (Feb., 1952), pp. 30–31.

[16] Earl S. Sparks, *History and Theory of Agricultural Credit in the United States* (New York, 1932), p. 6. On this point see Redlich, *Molding of American Banking*, Part I, pp. 206–207, 297–298.

[17] *Louisiana House Journal*, 1827, p. 65.

that by the fall of 1828 he stood on the edge of bankruptcy. About that time, apparently, he began to give serious attention to his plantation, acquiring additional slaves and bringing the estate to such a stage of cultivation that he might qualify for shares in the Consolidated Association, with a consequent right to a stockholders' loan. In the meantime, he was in need of more immediate assistance.

Hardly was the Consolidated Association in operation than the directors were called upon by Moussier for aid. He had been sued, he informed them on December 21, 1828, by the house of Rodgers and Harrison of Richmond for the payment of some $21,000 that the Virginia firm had extended to him in the form of credits. Now the firm's agent in New Orleans had by court order seized upwards of 70 slaves whom Moussier had just brought into the state. Rising to the occasion, the directors of the Consolidated Association appointed a committee to meet with their petitioner and with the agent of Rodgers and Harrison "to make with the least delay . . . the necessary arrangements to end all lawsuits on the part of the last against Mr. Moussier," and that same day the president of the Consolidated Association countersigned a note in favor of the Virginia firm's agent with the understanding that the suit against Moussier was to be dropped and the slaves released.[18] It was at this time that Moussier was identified in the minutes as the author of the Consolidated Association's charter.

At their meeting on February 16, 1829, the directors of the Consolidated Association resolved that a stockholders' loan of $30,000 would be accorded Moussier as soon as he had given the required mortgage on his plantation and slaves. This he seemingly did within a few days. Scarcely eight months later he was back, appealing for an additional loan and pressing his claim to special consideration as the "father" of the institution. Again the directors met his wishes, authorizing on October 31, 1829, a loan of $25,000, $10,000 of which Moussier was apparently permitted to draw on immediately. This time the directors caused to be recorded in the minutes that the "present accommodations are extended Mr. J. B. Moussier as author of the charter, for full and entire compensation for the services that he rendered. . . ." On July 17, 1830, Moussier received authorization to withdraw the remaining $15,000 of the sum that had been set aside for him earlier.[19]

Whether or not Moussier would have been able to work his way

[18] Directors' Minutes, Dec. 21, 1828, C. A. P. L. Papers.
[19] *Ibid.*, Feb. 16, 19, Oct. 31, 1829; July 17, 1830.

out of his financial difficulties will never be known, for at some time prior to the end of 1831 he died. On December 21 of that year the 120 shares of Consolidated Association stock that had stood in his name were transferred to one Alexander Baron. In the transaction, the former owner was referred to as "the late Mr. Moussier."[20] A year later his plantation was sold by the Consolidated Association,[21] that institution apparently having taken it over for the money that Moussier owed the bank.

Moussier left a widow,[22] at least three daughters, one of whom could not have been more than ten or twelve years old at the time of her father's death, and at least one son. The economic situation of this family was not an enviable one; by the mid-1830's the daughters, then apparently motherless, were in a state bordering on destitution. Their plight was in some manner brought to the attention of the directors of the Citizens' Bank, the third of the Louisiana property banks, an institution that was not even in existence at the time that Moussier died. Yet, on July 7, 1836, the directors of the Bank resolved that "a sum of $2500 be given to the Misses Moussier by reason of their situation and as a remembrance of the services that their father rendered the country in introducing the system of mortgage Banks."[23] In case the stockholders of the bank disapproved of the appropriation of bank funds to this purpose, the directors who voted for the resolution (all but one were to fall into that group), pledged themselves to make up the sum from their own pockets.[24] Thus Moussier was not without honor among his contemporaries.[25]

[20] Subscription Book of the Consolidated Association of the Planters of Louisiana, 1827–1840, C. A. P. L. Papers.

[21] Directors' Minutes, Feb. 9, 1833, C. A. P. L. Papers.

[22] *Michel's New Orleans Annual and Commercial Register, 1834.*

[23] Citizens' Bank, Directors' Minutes, July 7, 1836, Canal Bank Papers. (The resolution is in French.) At least one of the Misses Moussier was not yet of age at this time. (Citizens' Bank, Directors' Minutes, July 7, 1836.) The committee that presented the resolution had been appointed to inquire into the situation of the Moussier family "and to report on the propriety of extending relief to the *female members* of it." (Citizens' Bank, Directors' Minutes, June 16, 1836. Italics supplied.) A man named J. B. Gustave Moussier, who had some connection with New Orleans, died in Rio de Janeiro on July 29, 1885. (*New Orleans Bee*, Jan. 3, 1886.) He could have been a son or a grandson of the subject of this article.

[24] Citizens' Bank, Directors' Minutes, July 7, 1836, Canal Bank Papers.

[25] Roeder (*Ante-Bellum Merchants of New Orleans*, p. 122), suggests the possibility that Moussier, in promoting the idea of the Consolidated Association of the Planters of Louisiana, may have been acting as "a stalking horse" for Edmond J. Forstall, a New Orleans merchant who was prominent in the early histories of all three of the city's property banks. Such could hardly have been the case. At the time that the directors of the Citizens' Bank approved the gift for the Misses Moussier, Forstall was president of the bank. He presided at the meeting at which the resolution was presented and voted in favor of it. More than a thousand of Forstall's letters have been preserved (principally among the Baring Papers at the Public Archives of Canada in Ottawa). They reveal a man who was generous but who was also inordinately vain. It is inconceivable that had the writer of those letters had anything to do with the introduction of the system of property banks he would have permitted the above-cited resolution, which gives the entire honor to Moussier, to pass in the form quoted. Further, on more than one occasion, Forstall specifically claimed

All the property banks, with the exception of the Union Bank of Louisiana, came to grief in the depression of the late 1830's and early 1840's. This should occasion no great surprise. Functioning as commercial banks, the "mortgage" banks were liable to all the stresses and strains felt by ordinary stock banks in a day when instability was the rule. In addition, the property banks labored under the necessity of meeting at least the interest on their bonds, regardless of the scarcity of money in periods of stringency. If these banks failed in the extraordinary times following the crises of 1837 and 1839, so did America's other financial institutions, by the score. The failure of the property banks, therefore, does not detract from the truth that "much sound and shrewd business thinking" went into their creation.[26] It is one of the little ironies of history that Jean Baptiste Moussier, the man responsible for that thinking, remains an enigma.

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credit for arranging the Consolidated Association's European loan in 1828 and for helping to frame the charter of the Union Bank of Louisiana. Had he been responsible for the launching of the C. A. P. L., as well, surely he would have boasted of that, too. He was not a man to hide his light under a bushel.

[26] Redlich, *Molding of American Banking*, Part I, p. 208.

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China and the Erie Canal

China's Imperial Canal excited the imagination of a succession of travelers. While American and British canal promoters were interested in the technological details, the true importance of the Chinese precedent lay in the breadth of concept — a gigantic, state-supported geophysical manipulation in the interests of interregional trade.

On March 24, 1792, yielding to the vigorous efforts of General Philip Schuyler, the New York State Legislature passed an "Act for establishing and opening lock navigation within the state." The law set up two corporate bodies, one of which was the Western Inland Lock Navigation Company.[1] This organization was to connect the Ontario region of New York State with the Hudson River by improving streams with locks, short canals and wing dams. Hopefully, devices of this sort would open a passage along the Mohawk River, up Wood Creek, then by Oneida Lake and the Oswego River to Lake Ontario. From there goods would have to go by sloop and then wagon around Niagara Falls. Thirty-three years later, however, the Western Company has ceased to exist, and, replacing the faulty stream improvements, the world's largest inland lock canal, a completely excavated waterway, crossed the state.

New Yorkers, at times, called the project the Erie Canal, but quite as often spoke of it as the Grand Canal. Aptly, the first name showed a recognition of one great change since the plans of 1792. The western terminus was not now Lake Ontario but far-distant Lake Erie. Grand Canal, on the other hand, was equally fitting, for this was, certainly, a very long waterway. The second name, however, was not merely a tribute to size. Its meaning must be understood in terms of the literature available to the canal builders of the early nineteenth century.

The waterways of China held a prominent position in all of this

[1] A fine discussion of the company and the Northern Inland Lock Navigation Company may be found in Nathan Miller, "Private Enterprise in Inland Navigation: the Mohawk Route prior to the Erie Canal," *New York History* (Cooperstown, 1950), vol. XXXI, pp. 398–413.

material. Matteo Ricci's Latin *Journals*,[2] covering the years 1583–1610, gave some idea of their extent and construction. This Jesuit priest spoke of the prosperous and populous country along the canal connecting Peking with Nanking, 540 miles to the South. Ten thousand boats from the provinces of Shensi, Che King, Hupei, Kiangsu, Anwei and Shantung engaged in commerce along this route and carried the bulky taxes of rice and grain to the capital. Built to flow like a river, the waters of the canal collected behind heavy walls with large wooden gates at their centers. When the sluice gates opened, the torrent carried vessels through to the next level.[3]

In 1697, the Memoirs of the French Jesuit, Louis Le Compte, were printed in London.[4] Impressed by the priest's description of the efficient imperial government, the translator advised members of Parliament that "of all the Kingdoms of the Earth, China is the most celebrated . . . for Grandeur and Magnificence, for Arts and Inventions."[5] Here waterways played an essential role. Le Compte speculated that "tho' China were not of itself so fruitful a Country . . . the Canals which are cut thro' it, were alone sufficient to make it so."[6] "Clear, deep and running water, that glides so softly, that it can scarce be perceived" flowed in marble-lined "artificial rivers" which again and again "subdivided into small Rivulets, that end at some great Town or Village."[7]

Where two levels of a canal were not connected by the system of sluice gates and retaining walls, Le Compte found the ingenious Chinese using a second technique. Capstans, turned by hand, pulled a barge slowly up a stone-paved, inclined plane. At the summit, the vessel teetered precariously for a moment, then plunged wildly down a short plane into a higher body of water.[8] To descend to a lower level, the process was simply reversed. The English translation of Abbe Jean Grosier's *Description of China*, appearing in London in 1788, again described this method and assured its readers that the vessels were bottomed with wood hard enough to stand the strain.[9]

[2] Ricci's *Journals* were originally in Italian. Translated into Latin in 1615 by Nicola Trigault, the work did not circulate widely. The edition used here is the recent English translation, Matteo Ricci, *China in the Sixteenth Century: The Journals of Matthew Ricci, 1583–1610*, Louis J. Gallager, S.J., tr. (New York, 1953).

[3] Ricci, *Journals*, pp. 305–308.

[4] Louis Le Compte, *Memoirs and Observations . . . made in a late Journey through the Empire of China* (London, 1697).

[5] *Ibid.*, p. v.

[6] *Ibid.*, p. 108.

[7] *Ibid.*, pp. 104–105.

[8] *Ibid.*, p. 107.

[9] Jean Grosier, *A General Description of China* (London, 1788), vol. I, pp. 359–360.

After Le Compte, the most significant work on China in English was a translation of Du Halde's *History*, published in 1736.[10] This Frenchman was quite enthusiastic about China's largest waterway. "Nothing" he proclaimed, "is to be compared with the Great Canal called Yun leang, or Royal Canal, which is three hundred Leagues in length: The Emperor Chi tsou [11] . . . founder of the Dynasty of Yuan, undertook and executed this grand work." [12] Lending emphasis to the worth of the Emperor's undertaking, Du Halde described at length the prosperous cities and towns lying by the banks of the waterway.[13]

By 1740 then, one who read English might be informed that Chinese canals were government-sponsored projects which contributed to the prosperity of the area along their route. Moreover, he would know that these waterways consisted of "artificial rivers" intersected in places by sluice gates and, in other places, level waters connected by inclined planes. This information became embodied in material dealing specifically with canal building. In 1766, James Brindley's *History of Inland Navigation* told Englishmen that "the extensive empire of China, whose policy . . . is well worth attending to, owes the greatest part of its riches and fertility to those numerous canals, so useful for the transportation of the produce and merchandize of one province into another." [14] Twenty-six years later, John Phillips took the same position in his often-reprinted *General History of Inland Navigation*.[15]

There were, moreover, proposals to use Chinese techniques in construction. In 1791, Edmund Leach affirmed that the prosperity of China "may fairly be attributed to their inland navigations," and "like advantages might very reasonably be expected here, in each of these kingdoms, were we to follow the Chinese example." [16] As early as 1777 he had suggested the use of wheeled, amphibious cars on inclined planes. These were to be used on the canal that the Earl of Stanhope wished to build between Bude Haven in Cornwall and Hatherleigh in Devonshire.[17] Although the project failed to mature, Leach's enthusiasm was not dampened. The plane was superior to any vertical lift.[18] In combination with running canals,

[10] P. Du Halde, *General History of China*, R. Brooks, tr. (London, 1736).
[11] Ghengis Khan.
[12] Du Halde, *History*, vol. II, p. 272.
[13] *Ibid.*, pp. 275ff.
[14] James Brindley, *The History of Inland Navigation* (London, 1760), pp. 8–9.
[15] John Phillips, *A General History of Inland Navigation* (London, 1792), p. 9.
[16] Edmund Leach, *A Treatise on Universal Inland Navigations* (London, 1791), pp. 6–7.
[17] Robert Fulton, *A Treatise on the Improvement of Canal Navigation* (London, 1796), pp. xiii–xiv.
[18] Leach, *Treatise*, p. 49.

these devices would eliminate the halting inconvenience involved in using locks.[19]

While Leach's observations circulated in print, a future member of the New York State Canal Commission was traveling about Europe. Robert Fulton was soon to plan a propeller-driven submarine for the French Navy and, across the Channel, disintegrate an old Danish brig with a nautical mine for the benefit of the British. In 1796, less warlike, he published a *Treatise on the Improvement of Canal Navigation.* Fulton agreed with Leach that English builders who clung stubbornly to locks were ignoring the great boon of the inclined plane. The Chinese, he felt "possess many advantages of which we are ignorant."[20] There were gigantic cradles mounted on rollers, for instance. Barges, floated onto these, were easily drawn up ramps and plunged into a higher body of water, now floating free. Due to "imperfect accounts" and the reputed "magnificence of these canals" he could not believe the Chinese used so crude a device as hand capstans to raise and lower their vessels. Perhaps they were provided with some more efficient machine.[21] Fulton's imagination then soared to suggest systems of gears, weights, and pulleys to be used in combination with the inclined planes.[22] Doubting the vision of private enterprise, the inventor appealed to Parliament to patronize these devices "like the government of China."[23]

After 1794, there was fresh information on Chinese canals, this time coming from an English source. Two years before, the Earl Macartney's Embassy had set out for the Oriental empire. Now returned, three authors arose from its staff. These were Sir George Leonard Staunton, secretary to the Embassy; John Barrow, the Earl's private secretary; and Aneas Anderson, one of the nobleman's servants. All described their travels on the Imperial Canal and two of them, Staunton and Barrow, spoke of it as the Grand Canal.

In 1797, Staunton's *Account* of the Embassy made its appearance in London. The author provided excellent plates, both of the sluice gate and inclined plane,[24] besides discussing at length the winding, "artificial river."[25] Moreover, he sketched the rich and populous

[19] *Ibid.*, p. 7.
[20] Fulton, *Treatise*, p. 12.
[21] *Ibid.*, pp. 6–7.
[22] *Ibid.*, pp. 39–57, 71–76, and plates 2–4.
[23] *Ibid.*, p. 12.
[24] George Leonard Staunton, *An Authentic Account of an Embassy from the King of Great Britain to the Emperor of China* (London, 1797), vol. II, opposite page 382. There is, moreover, a detailed map of the portions of the Grand Canal traveled by the Embassy. This shows the locations of sluice gates and bridges. See vol. II, opposite page 276.
[25] Staunton, *Account*, vol. II, chap. V.

towns and farmlands spreading from the sides of the man-made stream. At times the engine of this wealth assumed monumental proportions: Staunton told of the Grand Canal as it passed Lake Po Yang: [26]

> On the western side of this lake, is a high and thick embankment of earth, which separates it from the canal, the surface of whose waters is considerably higher than those which fill the lake. The quantity of earth for this embankment through the whole length of the lake, must have been indeed immense, and collected with vast labour and expense.

All this, emphasized the secretary, was work of the imperial government: [27]

> This canal is not nor indeed is any in China, a private concern, carried on at the expense and for the profit of individuals; but is under the regulation and immediate inspection of the government, whose policy it is to maintain an easy communication between the several parts of the empire, as tending to promote the commerce and agriculture of the country, thereby increasing the revenues of the state and the comforts of the people.

Sir George Staunton's fine and full *Account* was not, however, the first book to appear from the diplomatic mission. Rogers and Berry of New York published Aneas Anderson's *Narrative* in a small, inexpensive volume in 1795. Like the Embassy's secretary, he spoke of a prosperous countryside. When it came to waterways, he was less perceptive. Perplexed, Anderson admitted he was never certain whether he was on a canal or a river.[28] John Barrow was not so confused. His *Travels*, printed at Philadelphia in 1805, showed him, perhaps, awed by the 70-foot deep cuts where the stream burrowed through hills; certainly, by the tremendous mounds of earth and stone elsewhere shouldering the canal. "The quantity of human labour that must have been employed," he observed, "in amassing together the different materials that compose this immense aqueduct, could not have been supplied, in any reasonable length of time, except in a country where millions could be set to work at the nod of a despot." Finally, he added one interesting piece of information: series of inclined planes were used where a slope was too steep for sluices.[29]

Besides circulating in New York City and Philadelphia, this material found its way into Upper New York State. The Hudson *Balance* on May 3, 1803, printed an article on Chinese agriculture

[26] *Ibid.*, pp. 389–391.
[27] *Ibid.*, p. 403.
[28] Aneas Anderson, *A Narrative of the British Embassy to China, in the Years 1792, 1793, and 1794* (New York, 1795), p. 222.
[29] John Barrow, *Travels in China* (Philadelphia, 1805), p. 346.

taken from Anderson and the Utica *Columbian Gazette* of September 19, 1803, quoted some of that author's comments on river travel.[30] Since the *Gazette's* owner, T. Walker, also ran a bookstore, Anderson's *Narrative* was among his stock. George Richards, Jr., of the Oneida Bookstore in Utica was carrying Barrow's *Travels* by August, 1805,[31] and, in Lansingburgh, Staunton's *Account* was sold from 1808 to 1811 at the printing shop of Tracy and Bliss.[32] Finally, in 1808, James Geddes, employed to survey the Ontario route for canal improvements, described part of the Niagara River as flowing like "the running canals of China." [33] Here, Macartney's Embassy, or earlier information, touched a leading engineer of the Erie Canal.

In these then remote regions the idea of an American Grand Canal came to life. Jesse Hawley, a grain forwarder from Canandaigua, suggested in 1807 "an overland canal from the foot of Lake Erie at Buffalo as containing . . . a great reservoir of water . . . to Utica, and down the Mohawk to the Hudson." [34] Fifteen years after, reminiscing, he asked De Witt Clinton what the Canal Commissioners had thought of his most important suggestions — a running waterway to be built by the national government rather than state or private funds.[35] But Hawley was not the first to suggest an Erie Canal. Writing to John Parish on January 30, 1800, Gouverneur Morris spoke of a recent vision. During the summer he traveled through Canada to the Niagara River. There, where Lake Erie joined the Niagara, he [36]

> saw riding at anchor nine vessels, the least of them above a hundred tons. . . . Does it not seem like magic? Yet this magic is the early effort of victorious industry. Hundreds of large ships will, in no distant period, bound on the billows of these inland seas. At this point commences a navigation of more than a thousand miles. . . . Know . . . that one-tenth of the expense borne by Britain in the last campaign would enable ships to sail from London through Hudson's River into Lake Erie.

Meeting Surveyor General Simeon De Witt in Schenectady in 1803, Morris told of his plans for the "navigation." De Witt recalled

[30] Anderson, *Narrative*, pp. 87–88, 145–146.
[31] Utica *Columbian Gazette*, Aug. 19, 1805.
[32] *Lansingburgh Gazette*, Jan. 12, 1808–Dec. 10, 1811.
[33] "Report of James Geddes to the Surveyor General . . . in 1809 . . . made pursuant to concurrent resolutions of the Senate and Assembly of March 21 and April 6, 1808," *Laws of the State of New York in Relation to the Erie and Champlain Canals* (Albany, 1825), vol. I, p. 24.
[34] Merwin S. Hawley, "Origin of the Erie Canal," *Publication of the Buffalo Historical Society* (Buffalo, 1880), vol. II, p. 241.
[35] Jesse Hawley to De Witt Clinton, Jan. 22, 1822, De Witt Clinton Papers, Columbia University.
[36] Anne Cary Morris, *The Diary and Letters of Gouverneur Morris* (New York, 1888), vol. II, p. 390.

that he proposed "*tapping Lake Erie* . . . and leading its waters in an artificial river directly across the country to Hudson River."[37] When De Witt suggested this was impractically grandiose, Morris replied that the intervening hills and valleys were no objection. Work could overcome them and the end product was worth the tremendous labor required.[38]

Gouverneur Morris was, undoubtedly, influenced by the literature on the Grand Canal of China. As early as April 8, 1792, he had learned of Macartney's Embassy in a dinner conversation with Count Woronzow.[39] He remained as American ambassador in France until 1798, having ample opportunity to find more information on the British diplomatic venture. More important, during his long service as a prime mover and presiding officer of the New York State Canal Commission, Morris composed annual reports. These documents embodied the principle of a "running canal." In March, 1811, the first "Report" of the Commission appointed in 1810 argued that:[40]

> The difference of level being upwards of five hundred feet, all the descent which can prudently be obtained by an inclined plane, is so much saved in the expense of lockage and in all human probability the transportation for centuries to come, will be of so much greater burden from the interior country, than back from the sea, that a current from the lake is more to be desired than avoided. . . .

Morris suggested a combination which Staunton found in China: a flowing waterway from which boats made the abrupt descent to a natural river by mechanical means. Under this plan the stream was to fall 155 feet of the 541-foot descent and then lock down 386 feet to the Hudson River at Albany. Three large embankments would be necessary. Passing over the Genesee River the first was only 26 feet high, but the second, over the tip of Seneca Lake was to rise 83 feet. The largest, however, was to be a mile long and rise 130 feet above the surface of Cayuga Lake. That was not all. As the canal wove its way about hills it would be shored up by banking and cutting. At Little Falls this must be done 80 feet above the Mohawk's waters, while at Schoharie Creek the height was 150 feet.[41] Perhaps the legislature doubted all this possible. In the commissioners' statement of March 12, 1812, Morris exhorted them that "when . . . the

[37] Jared Sparks, *The Life of Gouverneur Morris with Selections from His Correspondence and Miscellaneous Papers* (Boston, 1832), vol. I, p. 500. Sparks' italics.
[38] William A. Bird, "Early Transportation, New York State," *Publication of the Buffalo Historical Society* (Buffalo, 1880), vol. II, p. 26.
[39] Morris, *Diary and Letters*, vol. I, p. 526.
[40] "Report of the Commissioners . . . in Senate, March 2, 1811," *Laws*, vol. I, p. 58. "Inclined plane" here, of course, means a running waterway and not a ramp.
[41] *Ibid.*, pp. 61–62.

tongue of tradition has converted (as in China) the shadowy remembrance of ancient events into childish tales of miracle, this national work shall remain."[42]

These pleas met opposition. Even before Morris's death in 1816, at least one member of the Canal Commission was dissatisfied with his views. In February of that year Thomas Eddy asked De Witt Clinton "to procure an engineer of the *very* first talents – a *practical* Man *&c as stated in the Report sent up* to Albany (*not the one drawn* by Morris). . . ."[43] Eight years later, forgetting those very real reports, Eddy remembered his late associate in the warm light of Quaker charity. Morris was jesting, shocking to stimulate. Indeed, "he was often visionary, and would frequently suggest projects *solely* for the purpose of creating conversation and producing argument – this was certainly his motive when he proposed overcoming the rapidity of the Niagara River by means of two piers and Gates – be assured he was not serious."[44]

For De Witt Clinton running canals and sluice gates across the Niagara were certainly useless fantasies, *chinoiserie*. Morris might ask a monument for the ages, taking ages to build. Clinton, however, defeated in the presidential election of 1812, needed a more feasible ensign to rally his idle admirers. On December 30, 1815, under his guidance a meeting was held at the City Hotel in Manhattan. Swiftly, a memorial was approved and scattered throughout the state to cry the benefits of a canal to Lake Erie. The seed struck root, but, as succeeding canal reports demonstrated, Clinton did not dally with Morris's plan. The Grand Erie Canal was to be entirely a lock canal; not an "artificial river." More and more, the canal became Clinton's own, his "ditch," and the Chinese experience began to fade. In 1821 one of the governor's political lieutenants, Charles Glidden Haines, gathered a volume of *Public Documents Relating to the New York Canals*.[45] Offhandedly, the introduction remarks "as to the canals in China . . . nothing is known of them which can essentially facilitate the enterprise of other nations in similar works."[46]

[42] "Report of the Commissioners under the Act of April 8, 1811," *Laws*, vol. I, p. 81. Morris was quite fond of this passage. He quickly found mistakes in the printed copy and wrote De Witt Clinton to have them corrected. Gouverneur Morris to De Witt Clinton, March 17, 1812, De Witt Clinton Papers, Columbia University.

[43] Thomas Eddy to De Witt Clinton, Feb. 28, 1816, De Witt Clinton Papers, Columbia University. The Clinton Papers are quoted with the permission of Columbia University Libraries.

[44] Thomas Eddy to De Witt Clinton, April 4, 1824, De Witt Clinton Papers, Columbia University.

[45] Charles Glidden Haines, ed., *Public Documents Relating to the New York Canals* (New York, 1821).

[46] Haines, *Public Documents*, p. iii. This statement has been brought to my attention by the kindness of Miss Dorothy C. Barck of the New York State Historical Association.

Still, even for Haines, the inspiration of China's state waterways lingered. He predicted that: [47]

> If the national government should execute such works as the junction of the Chesapeak and Delaware bays, and the union of the Delaware and the Rariton rivers, and leave the different states to make other improvements within the compass of their respective means, we should be enabled in peace and in war to maintain an inland trade unequalled by any nation in existence, with the exception of China, and in time, even surpass her.

During the next decade many states made efforts in this direction, building canals in profusion. These projects were carried out under government control, following the pattern set by New York State's well-known Canal Commission and Canal Fund. Drawing more heavily from legislative allotments, rather than private shareholders and controlled more by state commissions than corporate directors, these new waterways indicated that the day of the canal company was passing. If not providing new methods of building, then, the oriental example played a part in this change. This was, indeed, but one aspect of a pervasive influence. G. F. Hudson has pointed out that China provided a model for European theories of enlightened despotism and influenced the French Physiocrats.[48] During the Enlightenment, moreover, Ralph Linton has suggested there was a burst of interest in Chinese philosophy and culture — an interest which subtly formed part of the background to the French Revolution.[49] The Chinese ideas which percolated the experience of New York's canal builders worked with equal subtlety, but with equal force. To a New York provided only with the inadequate works of the Western Company, China gave the vision of a government-built Grand Canal. That vision inspired a talkative and influential leader who vigorously planted the idea of a magnificent waterway reaching out not merely to Lake Ontario but to Lake Erie and to the West.

[47] *Ibid.*, pp. xlv–xlvi.

[48] G. F. Hudson, *Europe and China, A Survey of their Relations from the Earliest Times to 1800* (London, 1931), pp. 312–329. See also Lewis A. Maverick, *China, A Model for Europe* (San Antonio, 1946).

[49] Ralph Linton, *Tree of Culture* (New York, 1959), p. 241.

THE HEARD COLLECTION AND ITS STORY

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This is the story of a collection of family business records, its assembling, handling, and use by scholars.[1] As background, a summary account of the business represented by the records and of the family members who carried that business on will be helpful, but the emphasis will be on the collection itself.

The Heard Collection, as it is called, is one of the largest in the Manuscript Division of Baker Library at the Harvard Business School. It is probably the most extensive collection of business records relating to the China Trade of the nineteenth century now extant in this country. The records, as will be explained later, came to the Library in two parts; together they number some 800 volumes, 272 boxes, and 103 cases.[2]

Augustine Heard, who founded the business in China, to say nothing of old John Heard, of Ipswich, Massachusetts, would have been surprised to learn what steps have been taken to preserve these records and how useful they have already proved to scholars. Thomas Franklin Waters, who used the records now in Part I of the Collection, aptly characterized them in his volume, *Augustine Heard and His Friends*:

> It rarely happens that in a single family the account books, memoranda of passing events, personal and business correspondence of a hundred years are preserved, and it is yet more rare that such a long and continuous record happens in the case of lives that are in themselves noteworthy.

[1] This write-up is based on a talk delivered before the Ipswich Historical Society on Jan. 26, 1961.

[2] A box in this instance measures 11" × 15" × 2¼"; a case measures 12" × 15" × 12", and holds about a third of a file drawer.

I would begin by introducing the members of the family, at the same time indicating the scope of the collection. The earliest records are those of old John Heard (1744–1834); they date from before the Revolution. There are accounts of John's business as a merchant, and especially of his distillery business. There are records of ships in which he was interested, including privateers during the Revolution. The earliest record consists of accounts of the Schooner, *Jolly Robin* (1754–1757), of which John's father-in-law, Daniel Staniford, was Master. There is material of local interest, for he was a kind of Squire, concerned in the building of Chebacco Bridge, with the Jeffries Neck Division, and with many Ipswich school and town affairs. There is even a Catalogue of Books in the Ipswich Social Library of 1804, illustrating an early attachment of the family to libraries, which was to come to fruition with Augustine's gift of the town library in 1868.

It was John's son, Augustine (1785–1868), who founded the business in China, and who is the hero, if we are looking for a hero, of this story. Beginning as a supercargo for Ebenezer Francis when only twenty, he soon advanced to being a much sought-after ship captain in his own right. His nephew, John, wrote of him later: "He was one of the most remarkable men I ever knew. He had a strong physique and equally strong temper and passions, but under the most perfect control. . . . I do not think he knew the sensation of fear." [3] There are many stories about him in Waters' book, already mentioned, and in R. B. Forbes' *Personal Reminiscences*. In 1830, when forty-five years old, he went out to China as a partner in the firm of Russell and Company. This was in the early days of the China Trade, when foreigners were confined to the Canton area and required to deal with certain specified Chinese merchants. The term of service for an American merchant in China was generally three to five years, and Augustine returned to Boston in 1834. But friction developed in 1840 among the Russell and Company partners, and Mr. Heard authorized Joseph Coolidge, who had been one of them, to start a new firm, Augustine Heard and Company. A year later, in 1841, Augustine went out to China again to make sure that the new firm got off to a successful start. He took with him his nephew, John, the oldest son of his brother, George Washington Heard. One by one, the other sons of George — Augustine, Albert Farley, and George Washington (who later changed his middle name to Farley) — were drawn into the business, and it is appropriate to consider the contribution which each made.

We know rather more about John's experiences in China, since, in 1891, he drew up an autobiography. When he went out with his Uncle Augustine he was only seventeen. He remembered his first years in China thus:

> I went to work and stuck to it for three years! And work there meant work! There were no hours of relaxation — you were expected to be ready night or day, whenever you were wanted, and it was rare that I left my desk before 11 o'clock at night. Mr. Coolidge had a way of working in the evening, and my uncle of getting up early in the morning, so that between the two I got my full share.

[3] Quotations from John Heard are from his autobiography, a typed copy of which is numbered FP–4 in the collection.

This was the time of the first English war with China, largely over importation of opium, and there was danger and excitement enough for the young man. He describes an attack made by a Chinese mob on their offices and warehouse. His uncle led a small group in holding off the mob until the buildings were on fire; the next day they were able to salvage much of the firm's treasure. John was pleased with his uncle's statement, in a letter home: "You will be glad to hear that John behaved very well in a time of difficulty and some danger." After he had been three years in China, his uncle called him in and announced that he was admitting him to the firm, and also paying him $6,000, this being at the rate of $2,000 a year. Together with a profit of some $3,000 for a small "adventure," this gave the young man a capital of about $10,000, and all before he was twenty-one.

Augustine, Senior, returned to America in 1844, and he never went out to China again. But he looked after the American side of the business, with the help of an agent in Boston. And he of course corresponded with each of the nephews during their stints in China. This correspondence, as well as that of the nephews with their parents in Ipswich, is one of the significant parts of the first Heard Collection. In 1847 George B. Dixwell, another partner, went home for a time, and John took over sole charge of the firm in China. As he wrote of this period later, "I was fast getting to be a man, and to feel myself such." But at this time also he had the help of the first of his brothers to come out to China, for Augustine, 2nd, arrived in March, 1847; he became a partner in 1850.

All was not work by now, for there were boating races on the river, visits to Macao, and a trip to Bombay, which combined business and pleasure. Young Augustine's health was not good, and he went home in 1850. But by 1852 he had improved sufficiently so that he could return to China as head of the firm there, allowing John to come home. The latter, under whose guidance the firm was by this time making $50,000 a year, felt that he had earned a leisurely tour of Europe.

Young Augustine did even better than John; or perhaps it was the general advance in trade. While John was in Dresden, he received word that the firm had made more than $200,000 in the past year. The treaty of Nanking (1842), ending the war between England and China, had opened up new ports to trade, and the Heards were beginning to branch out. Albert Heard, who went out in 1853, was available to manage one of the branch offices; he became a partner in 1856. That same year, following further disorders in Canton, the head office was transferred to Hong Kong. The following year (1857) it was decided that Augustine should come home and John go out again. Visiting the branch offices in Foochow and Shanghai with Augustine, John found things considerably changed. He reminisced about this period later:

> I found the work little less hard than it used to be, but the hours were more regular, and there was little night work except at mail time. There were two or three days in each fortnight when the work of the head of the house was very severe. He had to read his letters, classify the orders in his own mind, and then write his orders to the different ports; beside this, he had to regulate the finances of the different ports. The men managing there never had a care about this — they simply sat down on the head at

Hong-Kong. It was his business to keep their accounts in his head and see that they were supplied with money.

At the end of the second English-Chinese war, in 1858 and 1859, further ports were opened, especially on the Yangtze River, and the importation of opium was made legal. John was one of the first to see that a profit could be made by steamboats on the rivers, and he sent to America for the *Fire Dart*. In 1861, while the Chinese rebels were still in the area, he made a trial trip up the Yangtze to Nanking and Hankow. His scheme was justified when the *Fire Dart* made a profit of $175,000 during its first year. John was also the first American merchant to establish a branch in Japan; he went to Yokohama to look over the ground in 1859, accompanying Mr. Harris, American minister. He accepted an appointment as both Portuguese and Russian Consul at Hong Kong, but he decided later that these jobs were more trouble than they were worth. George, the youngest, who had come out in 1859, served as attaché for the American minister, Ward, during the American negotiations at Peking. John went home in December, 1862, leaving Albert in charge. He wrote later that he "left the house firmly established, rich and second to no other American house in China. Indeed, I doubt if many would not have called it the first." He took over the Boston end of the business from Augustine, Senior, who retired to Ipswich, where he died, much respected, in 1868. He left a half-million dollars, to be divided among the four nephews, and gave one half of the Ipswich house to John.

Albert's first term as head of the China house lasted from 1862 to 1867; George was in the Shanghai office. It was during this period that the lucrative steamboat business on the rivers passed into the hands of Russell and Company. The Heards, and other firms, such as Dent and Jardine Matheson, were unable to raise enough capital to compete successfully.[4] In 1867 Albert went home, and Augustine came out again. One outline of the firm's activity shows the period from 1857 to 1867 as one of routine commission business, and the period from 1867 to the end as one of a variety of activities. In addition to the usual commission business in tea, china, silks, and similar items, the firm was still engaged in importing opium into China. It was also still concerned with shipping, though now along the coast rather than on the rivers. The Heards acted as agent for a number of insurance companies, and were engaged in various small businesses, such as a Machine Shop, the Novelty Iron Works, and the Wanchi Steam Bakery. In 1867 Augustine replaced Albert as head of the firm in China, serving until 1871. And that year (1871) all four brothers got together in Paris, when it was agreed that Albert would take over the reins again in China.

In the early 1870's, John noted some signs that all was not well. There were more claims against the firm: one, a suit brought by Heinemann & Payson for alleged nonexecution of orders sought damages of $80,000. The Heards won, but the other party appealed, and finally the case was compromised. More serious was John's discovery that P. L. Everett, the Boston agent, had misappropriated the firm's bills of exchange in an

[4] See articles by K. C. Liu on the Shanghai Steam Navigation Company, *The Business History Review*, vol. XXVIII (June, 1954), pp. 154–181, and vol. XXIX (June, 1955), pp. 157–188.

amount that eventually reached $245,000. John tried for two years to keep things afloat, but finally, on April 19, 1875, the China house collapsed; the failure was for millions of dollars. One of the reasons for the failure, John reported later, was the extravagant way of living in China; the expenses of the house kept going up, and when the time came to retrench it was difficult to do so. There were new factors in China too, such as the rise of banks and the taking over of trade by the Chinese themselves. The foreign firms no longer had things all their own way; the Panic of 1873 in this country must also have been a factor. Some of their friends in China advanced a small amount in an effort to re-establish the business under the name Heard and Company. John and Augustine went back to China, against John's better judgment. And when they arrived there, it was only to find that nothing could be done. So John, Augustine, and Albert set out for home by different routes; George, becoming ill, had left in 1875 and died on shipboard in the Red Sea. John reported later that he was his favorite brother.

What sort of businessmen were the brothers; in what ways did they differ from one another? It is of interest that, as to education, John went only through English High School; Augustine graduated from Harvard in 1847; Albert from Yale in 1853; while George attended Harvard but did not graduate. Instead, he went to Europe and climbed Mont Blanc. Someone has said that John was capable, but lacked daring; that Augustine, 2nd, was the most imaginative and the most willing to run a risk; and that Albert had the least business ability. George never was head of the firm in China, but apparently he was more like John than like Augustine. John himself says, in praising Augustine's achievement, "I must say that I doubt if any of us could have done as well. I would not because I am too cautious, and Albert would not because he would have 'bust' before he got there." Looking back, John felt that, when Augustine first came out to China, perhaps they did not do well in putting all their eggs in one basket; that is, that all four should not have been in the same business. No one of them can be blamed for the failure; it was caused by a combination of circumstances.

We may trace briefly the subsequent life of the three surviving brothers. John writes with candor that he managed to salvage enough by means of sale of goods which he had bought in China and monies which he had turned over to his wife to keep them going. But they had to sell the fine house in Park Street, Boston, and would have lost the Ipswich house had it not been for friends, who purchased it and gave it to John. They turned to mining and real estate interests in this country, to sale of guns in Russia, and to an investment business in New York City. Albert became interested in the history of the Russian church, publishing a book on the subject; he also served as private secretary to William C. Endicott, Secretary of War, and later as librarian for the Army. He died in Washington in 1890. Augustine served as United States Minister to Korea in 1890; he died on shipboard off Gibraltar in 1905. John died in 1894, not long after composing his autobiography.

We should now return to the collection of records, which illustrates so well the business, and to some extent the personal, lives of these men. Carefully preserved in the Ipswich home were all the letters to and

from the brothers and their uncle and their parents, the diaries, and other accounts to which Mr. Waters referred. In 1931 Baker Library purchased all this material, for a nominal sum, from Miss Alice Heard and the Estate of John Heard, son of the John of the autobiography. The collection was added to the growing Division of Manuscripts, where the records of many New England firms and businessmen were being accumulated. The unbound material was carefully placed in boxes and a detailed inventory or description drawn up. This lists many of the letter writers by name, but no attempt has been made to index them all; it would be a tremendous task. Brief accounts of the significance of the material were written for the Business Historical Society *Bulletin* in 1936 and 1938,[5] and the collection began to attract scholars.

Meanwhile, all the firm's records remaining in China had been stored in a warehouse of Jardine, Matheson, the leading English firm there. These included all the letters back and forth between the various Far Eastern branch offices, detailed accounts of their business, prices current (those printed sheets distributed to their customers), and circulars of many kinds. Sometime in the 1930's, Professor D. E. Owen, then of Yale, came on this material and arranged for its gift to that University. Later, he reported: "The value of the collection lies chiefly in its mass. We have found no single document or group of documents that seem to be of great importance in themselves. But the collection, as a whole, throws a good deal of light on the anatomy and physiology of a large Western firm trading in China." It soon occurred to Arthur H. Cole, Librarian of Baker Library, that a swap might be arranged, whereby Baker would turn over to Yale some Connecticut material and receive in return the Heard Collection. Since an institution cannot give away material, the collection is on permanent loan here. It arrived in 1942 in 50 or so large wooden crates. The volumes were shelved, but much of the unbound material had to be stored away until the end of the War. Then we went to work on these; for a time we had the help of Miss Ruth Ho, a Chinese girl who was studying in this country. We placed much of the material in cardboard cases, each holding about a third of a file drawer; the folders relating to ships alone fill 28 cases. Again, we could not hope to index every name, but we have provided various lists to ships and key correspondents. One interesting find was two partial sets of the *Japan Expedition Press*, issued on board Perry's flagship; somehow these found their way into A. Heard & Company's office files. One set was returned to Yale; the other is in the Kress Room, or rare book library, at the Harvard Business School.[6]

What sort of use has been made of this collection at Baker Library? Since 1948 I have kept a record of the use of collections and can answer the question. One of the heaviest users has been Mr. K. C. Liu, a Chinese student now teaching history at Harvard. He has had two articles published in the Business Historical Society *Bulletin* on the Shanghai Steam

[5] Mary G. Mason, "Aspects of the Trade between China and America, 1840–1870," *Bulletin of the Business Historical Society*, vol. X (April, 1936), pp. 24–28. Elsie H. Bishop, "The Business Man as a Business Historian," *Bulletin of the Business Historical Society*, vol. XII (April, 1938), pp. 17–24.

[6] R. W. Lovett, "The Japan Expedition Press," *The Harvard Library Bulletin* (Spring, 1958).

Navigation Company, and is planning others, including one on Houqua, the Chinese merchant. Professor E. K. Haviland, of Johns Hopkins, whose hobby is steamboats, has studied the collection for information about the use of steam on Chinese rivers. Some students have been interested from the point of view of diplomatic history, among them C. J. Savage, of the Fletcher school, and A. C. Cressy, of Oglethorpe University. Some have been interested for personal reasons, such as Mrs. Walter M. Whitehill, whose ancestor was Joseph Coolidge; and some from the local point of view, such as two members of the Ipswich Historical Society. One interesting user was Dr. Lindsay Ride, Rector of Hong Kong University, who was making a study of the Protestant Cemetery at Macao. Roland Lambert, of Washington, D. C., and Peter W. Fay, of California, have been studying the opium trade; and J. M. Downs, of Georgetown University, was interested in the Canton Community to 1842. It is evident that a variety of interests are represented, and the value to research of a collection such as this can never really be exhausted.

The collection is really too large to be encompassed by any one person. It is better to study a segment, or to come with some inquiry in mind, and that is what most of these persons have done. First of all, it is an important source for American trade with China from 1840 to 1875. But it is more than that, it is the well-nigh complete record of a most interesting nineteenth-century mercantile family. It is also a source of information about other families, represented by the many persons who worked for the Heards. Finally, it is a source of much local information; in the area of business, for instance, there are records of the Ipswich Manufacturing Company, the Dane Manufacturing Company, and the Ipswich Cotton Mills.

One person, surveying the collection, concluded in somewhat flowery terms: "And now they are all dead and gone! No, as long as the letters in their own handwriting to each other — "Dear John," "Lal," "Gus," and "George," signed "yours ever"; their letters to their uncle Augustine and his letters to them; their letters to their parents, remain, telling first-hand stories of business, social and family life of bygone days in China, Europe and America, they still live." [7] For all John Heard's disclaimers in his autobiography, these men were involved in what must now appear to us as significant and remarkable events; they were keen observers and good reporters of what they saw. Though the business in China, on which so many hopes were based, failed, the records of that business, so revealing of the character of the Heards themselves, will continue to interest scholars for years to come.

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[7] Unsigned statement in folder in Manuscript Division.

AFL PAPERS AND OTHER MANUSCRIPT ACCESSIONS

State Historical Society of Wisconsin

GLENN E. THOMPSON
Assistant Director of
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Madison, Wisconsin

In recent years the Manuscripts Library has received several important additions to its labor history collections. These are now processed, inventoried, and ready for use.

The *American Federation of Labor Papers*, covering the period from 1881 to 1953 and comprising approximately 525 file boxes of correspondence, speeches, and statistics, were presented to the Society by the American Federation of Labor. The papers are composed of files from various offices or divisions of the organization, and are arranged in a manner similar to their original form in the AFL offices. One exception is the Gompers material, which is now arranged chronologically. The files of each office are designated as a series and include the following:

Series 1. Files of the Executive Secretary of the Labor Housing Conference, 1935–1939: correspondence, pamphlets, and statistics from the office of Miss Catherine Bauer concerning housing problems, housing legislation, and slum clearance.

Series 2. Legislative Reference Files, 1919–1930: correspondence, memoranda, briefs, and other materials dealing with federal and state legislation on banking, agriculture, education, civil rights, and other subjects of interest to the AFL.

Series 3. State Legislation Files, 1942–1951: correspondence of William Green concerning pending bills in state legislatures, especially those dealing with anti-labor laws, right-to-work legislation, unemployment compensation, and court decisions in labor cases.

Series 4. Industry Reference Files, 1930–1950: correspondence of the president of the AFL, research personnel, union members, and affiliated unions; memoranda, statistical data, legal proceedings, and information concerning local unions; clippings; and other material dealing with Labor and Industry. Materials in the decade, 1930–1940, deal primarily with NRA codes, hearings, and wage and hour decisions. The 1940–1950 papers are concerned especially with World War II and deal with production, housing, wage and working problems, postwar adjustment and demobilization, the OPA, and other war and postwar governmental agencies.

Series 5. Files of the Economist of the AFL, 1938–1948: informational letters from the NLRB to Boris Shishkin, and his correspondence with unions concerning NLRB rulings and instructions; four volumes of correspondence, minutes, reports, and recommendations of the Labor Policy Committee of the War Assets Administration, of which Boris Shishkin was a member; and personal and official papers relating to Shishkin's work as the economist for the AFL.

Series 6. *American Federationist* Files, 1932–1943: correspondence of

Miss Florence Thorne and the editor of the *American Federationist*; comment and criticism relating to articles; and correspondence between William Green and various universities and scholars concerning research subjects prepared by the AFL on labor problems.

Series 7. Strikes and Agreements File, 1898–1953: correspondence, telegrams, and reports between local unions and the president of the AFL concerning negotiations with management, strikes, and agreements.

Series 8. Files of the Director of Research, 1935–1952: correspondence of Miss Florence Thorne as Director of Research; correspondence and reports relating to the problems of Social Security, old-age assistance, unemployment compensation, and health; and materials relating to World War II problems of defense, education, international relations, and postwar adjustments.

Series 9. Works Progress Administration File, 1933–1938: correspondence of the president of the AFL with local unions regarding problems arising from WPA projects.

Series 10. Information and Research File: requests directed to the Office of Information and Research concerning the financial status of various companies and wage scales in particular crafts and industries — information sought for bargaining purposes.

Series 11. Files of the Office of the President, 1881–1952: correspondence, articles, addresses, press clippings, interviews, reference materials, hearings and testimony, and conference notes relating to President Samuel Gompers, 1881–1937, and to President William Green, 1934–1952. Among the topics discussed are local unions, boards of trade, war preparedness, the eight-hour law, woman suffrage, Negro labor, government by injunction, child labor regulations, conventions, relations with the CIO, international unions, and state federations.

The *AFL-CIO Committee on Political Education (COPE) Papers*, presented by the AFL-CIO office in Washington, D. C., through Mrs. Mary G. Zahn, include a file of correspondence, reports, and lists relating to local congressional elections, chiefly in the period from 1948 to 1954; and clippings and reports, 1946–1957, kept by COPE and its predecessors, the Political Action Committee of the CIO and the Labor League For Political Education of the AFL, concerning the senatorial career of Joseph R. McCarthy.

The *Wisconsin State Industrial Union Council Papers*, 1937–1960, presented by the Wisconsin CIO office through Charles Schultz, include records of the Wisconsin State Industrial Union Council prior to and during its merger with the Wisconsin State Federation of Labor in 1958. The collection is made up of correspondence; labor management agreements; and files of the Political Action Committee (PAC), the Merger Committee, and the Governor's Industrial Development Committee.

The *Ernest E. Schwarztrauber Papers*, the gift of Mrs. Ernest E. Schwarztrauber, Santa Monica, California, consist of correspondence, 1908–1953, reports, speeches, articles, and diaries, 1894–1950, of a noted labor educator. Many of the papers pertain to his work at the Univer-

sity of Wisconsin School for Workers, and the Portland Labor College, Portland, Oregon.

The *William English Walling Papers*, given by Mrs. William E. Walling to the University of Wisconsin Library contain correspondence, 1871–1939, of the noted author and lecturer on social and economic problems; articles and speeches on labor, the national economy, and race relations; clippings; and reviews of Walling's books.

The *Charles P. Howard Papers*, presented by Mrs. Charles P. Howard, Colorado Springs, Colorado, deal with Howard's career as a labor leader and as president of the International Typographical Union. The papers contain correspondence [1917?]–1938, relating to personal affairs and Howard's failure to win re-election in 1938, and articles and speeches, 1918–1938, expressing his labor philosophy.

The *Elizabeth Gurley Flynn Papers*, presented by Miss Flynn, New York liberal, author, and organizer for the Workers Defense Union, contain miscellaneous papers relating to efforts during the years 1917 to 1923 to secure justice for political prisoners, anarchists, labor agitators, IWW members, Socialists, and others whom the Workers Defense Union believed were being deprived of their civil rights.

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EDITORIAL AND FOOTNOTE SUGGESTIONS FOR CONTRIBUTORS TO BUSINESS HISTORY REVIEW

I. MANUSCRIPTS

Manuscripts should be typewritten, double space, on standard size, good grade, white paper (approximately 8½" × 11"). The original copy, not a carbon, should be submitted to the *Review*, the author retaining a carbon for his own reference. Number pages consecutively.

The accepted standard for spelling is Webster's *New Collegiate* [New International] *Dictionary*, Second Edition.

II. QUOTATIONS

The author is responsible for the accuracy of his quotations and references. All quotations must be verified carefully before the manuscript is submitted for publication.

Each quoted passage should be accompanied by a specific reference.

Long quoted passages should be single-spaced and set off from the text by indenting the lefthand margin five spaces.

When quotations totaling more than 200 words are made from any copyrighted work, the author must secure permission to quote from the holder of the copyright and must see that proper acknowledgment is made.

III. TABLES

Tables should be numbered in roman numerals, consecutively. Each table should be on a separate sheet, with its footnotes below it. Footnotes to tables should be indicated by superior letters instead of numerals.

All tables should have a title and all arithmetic within the table should be checked for accuracy. Tables should be clear and concise.

IV. FOOTNOTES

Footnotes should be numbered consecutively; they should be indicated in the text by Arabic numerals placed slightly above the line, outside the punctuation.

DO NOT TYPE NOTES IN THE MIDDLE OF THE TEXT PAGE. It is preferable to submit footnotes on separate sheets at the end of the article, double space.

BOOKS AND PERIODICALS

Books

Name of author in normal order, *Title of Book* (City, State [optional], year), vol. no., pp. 00–00.

> Example: Edward D. Adams, *Niagara Power, History of the Niagara Falls Power Company, 1886–1918* (Niagara Falls, New York, 1927), vol. I, pp. 76–80.

Name of editor in normal order, ed., *Compilation of Material* (City, year), vol. no., pp. 000–000.

> Example: Samuel I. Rosenman, ed., *The Public Papers and Addresses of Franklin D. Roosevelt* (New York, 1938), vol. I, pp. 752–754.

Use *Ibid.* if exact citation is duplicated in a reference immediately following.

> Example: 1. Edward D. Adams, *Niagara Power, History of the Niagara Falls Power Company, 1886–1918* (Niagara Falls, New York, 1927), vol. I, p. 144.
> 2. *Ibid.*

Use *Ibid.*, p. 151, if same reference but different page.

> Example: 1. Edward D. Adams, *Niagara Power, History of the Niagara Falls Power Company, 1886–1918* (Niagara Falls, New York, 1927), vol. I, p. 144.
> 2. *Ibid.*, p. 151.

Use short title instead of *op. cit.* if other references intervene.

> Example: 1. Edward D. Adams, *Niagara Power, History of the Niagara Falls Power Company, 1886–1918* (Niagara Falls, New York, 1927), vol. I, pp. 86–90.
> 2. Rosenman, *Public Papers.*
> 3. Adams, *Niagara Power*, vol. I, pp. 144–151.

Periodicals

Name of author in normal order, "Title of Article," *Name of Magazine*, vol. no. (Place of Publication if foreign, Month, year), pp. 00–00.

Example: 1. Harold I. Sharlin, "The First Niagara Falls Power Project," *Business History Review*, vol. XXXV (Spring, 1961), pp. 59–74.

2. W. J. Reader, "The United Kingdom Soapmakers' Association and the English Soap Trade," *Business History*, vol. I (Liverpool, England, June, 1959), pp. 105–106.

Use short title instead of *op. cit.* if other references intervene.

Example: 1. Harold I. Sharlin, "The First Niagara Falls Power Project," *Business History Review*, vol. XXXV (Spring, 1961), pp. 59–74.

2. Rosenman, *Public Papers.*

3. Sharlin, "Niagara Power Project," p. 211.

Theses

Name of author in normal order, "Title of Manuscript" (Degree of thesis, University, date), p. no.

Example: Henry August Pochmann, "The Mind of Mark Twain" (Ph.D. Thesis, University of Texas, 1924), p. 24.

Newspapers

Name of Newspaper (Location), Month, day, year. [Page number is not given.]

Example: 1. *The New York Times*, June 28, 1961.

2. *The Times* (London), June 28, 1961.

GOVERNMENT PUBLICATIONS

1. U. S. Bureau of the Census, Fifteenth Census of the United States, Census of Distribution, Retail Distribution (Trade Series), *Automobile Trades* (Washington, Government Printing Office, 1934), Table 9A, p. 72.
2. U. S. Bureau of Labor Statistics, instead of U. S. Department of Labor, Bureau of Labor Statistics.

   Example: U. S. Bureau of Labor Statistics, Bulletin No. 572, *Wholesale Prices*, 1931 (Washington, Government Printing Office, 1933).
3. Federal Trade Commission, *Utility Corporations: Economic, Financial, and Corporate Phases of Holding and Operating Companies of Electric and Gas Utilities*, Sen. Doc. 92, Part 72-A (Washington, Government Printing Office, 1944), p. 46.
4. Hearings before the Senate Committee on Small Business, *Impact of Price Controls and Stabilization Policies on Small Business: VII*, Part 82, 79th Cong., 2d Sess. (Washington, Government Printing Office, 1946), p. 9335.

LEGAL CITATIONS

In citing legal cases, the title of the case is underlined (or italicized). The volume number precedes the abbreviated title of the report, and the page number and date follow. Since court decisions usually appear in two or more reports, the reference frequently mentions more than one report; the official report is cited first. Some federal and state reports are known by the name of the official reporter. For a reporter of the U. S. Supreme Court, U. S. should appear after the name; for a state reporter, the state abbreviation.

Examples:
1. U. S., *Constitution*, Art. 4, sec. 3.
2. Illinois, *Constitution* (1848), Art. 5, sec. 2. [The date of a constitution is indicated ordinarily only when it is not the one in force.]
3. Massachusetts, *Annotated Laws* (Supplement, 1951), c. 184, sec. 8.
4. *Lisemba* v. *State of California*, 314 U. S. 219 (1939). [Note that the v. is not underlined.]
5. *Collector* v. *Day*, 11 Wallace (U. S.), 113 (1870).

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REPRINTS AVAILABLE

Reprints are now available of the entire *Bulletin of the Business Historical Society*, volumes 1–27 (1926–1953). The General Index covering this period has also been reprinted. Orders for these reprints should be sent directly to

Kraus Reprint Corporation
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List prices for orders received are as follows:

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General Index 1–27	Paperbound —	5.00

* Volumes 1–24 will be reprinted in units of two or three volumes as follows: 1–3 (1926–1929); 4–6 (1930–1932); 7–9 (1933–1935); 10–12 (1936–1938); 13–15 (1939–1941); 16–18 (1942–1944); 19–20 (1945–1946); 21–22 (1947–1948); 23–24 (1949–1950). Volumes 25–27 (1951–1953) will be reprinted separately.

The *Business History Review*, which succeeded the *Bulletin* in 1954 as volume 28 and succeeding volumes, will also be reprinted. Notice will be published when these reprints are available.

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ANNUAL MEETING OF THE BUSINESS HISTORY CONFERENCE

The Annual Meeting of the Business History Conference will be held on February 24, 1962, at Michigan State University. The theme of the Conference, sponsored by the Department of History and the College of Business and Public Service, will be "America as a Business Civilization." The program will include papers and discussions by Edward Ames (Purdue), C. Perry Bliss (Buffalo), Robert H. Bremner (Ohio State), Thomas C. Cochran (Pennsylvania), Ralph W. Hidy (Harvard), Ernest O. Melby (Michigan State), Robert Wiebe (Northwestern), and Harold F. Williamson (Northwestern). Further information may be obtained from Professors Stuart W. Bruchey, James H. Soltow, Department of History, or Stanley C. Hollander, Department of Marketing and Transportation Administration, Michigan State University, East Lansing.

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ANNOUNCEMENT OF RESEARCH GRANT, HARVARD BUSINESS SCHOOL, SUMMER, 1962

The Harvard Graduate School of Business Administration announces the availability of funds to aid archivists, librarians, and researchers interested in investigating topics in economic and business history or in studying the acquisition and handling of archival material, manuscripts, and books in this field. The School's unique resources in these areas will be available to such persons during the summer of 1962. Members of the Business History Group and the staff of Baker Library will be available for consultation and guidance, but applicants who receive assistance will be free to pursue their projects as they think best. The criterion for awarding financial aid will be primarily the extent to which the use of the School's resources can be expected to advance proposed projects. The awards will be made by a committee of faculty members at the Harvard Business School. The amount of aid will be adjusted to the requirements of the individuals who are selected. Inquiries may be addressed to Professor Ralph W. Hidy, Morgan 304, Harvard Graduate School of Business Administration, Soldiers Field, Boston 63, Massachusetts.

BOOK REVIEWS

Seven Progressives

A Review Article

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A consensus has developed among most historians of the period about the nature of early twentieth-century progressivism. Their typical progressive was a member of the urban middle class, a professional man or independent businessman, comfortable financially, well-educated, a native-born Protestant, probably of New England stock. These men felt themselves overshadowed and threatened by the wealth and power of the new masters of capital, and their progressivism was a reaction to this "status revolution." "Looking backward to an older America," Professor George E. Mowry finds, the progressives hoped "to recapture the older individualistic values in all the strata of political, economic, and social life." "The central fear," declares Professor Richard Hofstadter, "was fear of power," and the progressive movement, "at its heart, was an effort to realize familiar and traditional ideals" that had "taken form under the conditions of a predominantly rural society with a broad diffusion of property and power." [1]

A reading, however, of the recently published biographies of seven leading Republican progressives [2] raises the question whether such gen-

[1] George E. Mowry, *The California Progressives* (Berkeley and Los Angeles, 1951), pp. 86–104; Richard Hofstadter, *The Age of Reform, From Bryan to F.D.R.* (New York, Vintage edition, 1960), pp. 131–148, 215–227; George E. Mowry, *The Era of Theodore Roosevelt, 1900–1912* (New York, 1958), pp. 85–105.

[2] William H. Harbaugh, *Power and Responsibility: The Life and Times of Theodore Roosevelt* (New York, 1961); John A. Garraty, *Right-Hand Man: The Life of George W. Perkins* (New York, 1961); Elting E. Morison, *Turmoil and Tradition: A Study of the Life and Times of Henry L. Stimson* (Boston, 1960); Charles Forcey, *The Crossroads of Liberalism: Croly, Weyl, Lippmann, and the Progressive Era, 1900–1925* (New York, 1961); M. Nelson McGeary, *Gifford Pinchot: Forester-Politician* (Princeton, 1960); Marian C. McKenna, *Borah* (Ann Arbor, 1961); and Robert M. La Follette, *La Follette's Autobiography* (Madison, 1960). Since *La Follette's Autobiography* ends just before the 1912 election, I have used Belle Case La Follette and Fola La Follette's *Robert M. La Follette* (2 vols.; New York, 1953) for information about his later years. Although Professor Forcey's book is a study of Croly, Weyl, and Lippmann, I have dealt for the purposes of this essay only with Croly as the most important and central figure of the three. All information and quotations in the text are drawn from these above-mentioned works unless otherwise cited.

eralizations about the movement are warranted. Even the most cursory glance reveals a split — one noted by contemporaries no less than by subsequent historians — between those progressives who favored accepting, and then regulating, the large corporations and those favoring a return to the old competitive system of small units. Half of the progressives, Theodore Roosevelt lamented in 1911, "are really representative of a kind of rural toryism, which wishes to attempt the impossible task of returning to the economic conditions that obtained sixty years ago. The other half wishes to go forward along the proper lines, that is, to recognize the inevitableness and necessity of combinations in business, and meet it by a corresponding increase in governmental power over big business. . . ."[3]

Their preoccupation with domestic politics has blinded most historians to the larger import of this split.[4] But the same line of cleavage can be found in foreign affairs. Those championing regulation of large corporations favored recognition of, and positive action to meet, the international responsibilities incumbent upon the United States as a world power; those looking to restore competition favored the traditional policy of American isolation from active participation in world affairs. This division within the progressive ranks was, I would suggest, a fundamental one. On the one hand were those willing to face without flinching the challenges and dangers of the twentieth century. On the other hand were those who hoped to recapture the small-town, "little" America of the nineteenth century — those whom Roosevelt called "not progressive at all, but retrogressive."

Let us call one group the "moderns"; the other, the "traditionalists." Of our seven progressives, four — George W. Perkins, Henry L. Stimson, Herbert Croly, and Theodore Roosevelt — belonged to the "moderns" camp; two — Robert M. La Follette and William E. Borah — to the "traditionalist" camp. The seventh — Gifford Pinchot — followed a path between the two camps, inspired by the new spirit of the "moderns," yet drawn by the ideals and values of the "traditionalists."

The four "moderns" had similar backgrounds: all were members by birth of respectable middle-class America and all were financially comfortable, through inheritance or their own exertions, in their later years. All were by inheritance and conviction Republicans. The G.O.P. had saved the Union; the Democracy was, in the words of the Reverend Samuel D. Burchard, the party of "Rum, Romanism, and Rebellion." All were city-born and city-bred. Although Roosevelt and Stimson were enthusiastic lovers of the outdoor life, and Perkins found fishing his chief relaxation, all looked at American problems through the eyes of city dwellers. Only Roosevelt, of the four, paid much attention to rural problems; but even his major concern was with the social, political, and economic issues arising in a modern and highly industrialized urban society.

All four grew up in strongly religious households, and although none

[3] Quoted in Mowry, *The Era of Theodore Roosevelt*, p. 55.

[4] William E. Leuchtenberg, "Progressivism and Imperialism: The Progressive Movement and American Foreign Policy, 1898–1916," *Mississippi Valley Historical Review*, vol. XXXIX (Dec., 1952), pp. 483–504, is a valuable pioneering attempt to link up the domestic and foreign aspects of progressivism, but the approach differs from that taken in the present essay.

remained in later years more than a formal churchgoer, all retained the ideal of service inculcated during their youth. George Perkins inherited from his father "a stern Presbyterian sense of obligation," which found expression first in the insurance business, then in public service. Henry Stimson grew up in a family whose watchwords were Right, Truth, Duty; took as his youthful ambition "to do good in some way"; and found that the private practice of law failed to satisfy his "ethical side." Herbert Croly reached maturity under the influence of his father's mystical "religion of humanity" with its preachment that the world is to be improved, not simply accepted. Theodore Roosevelt, Sr., transmitted to the future chief executive his own Presbyterian sense of moral duty and habit of *noblesse oblige*, and T.R. himself defined religion "as service to one's fellowmen rendered by following the great rule of justice and mercy, of wisdom and righteousness."

The central theme in the thought of all four men was *order*. The depression-wracked and crisis-filled years of the 1890's had been a searing experience. The disruptive forces of modern industrialism — the widening extremes of wealth and poverty, the rise of giant corporations, the increasing restiveness of labor, the dread specter of class warfare — had threatened during those years to rend the fabric of society. The danger of fragmentation, of social upheaval, of anarchy, weighed heavily upon the minds of our four "moderns" in the years that followed. Their great preoccupation was stability, order, control. They faced the twentieth century with mingled apprehension and hope — apprehension lest these disruptive forces tear society to pieces; hope that men of intelligence and good will could harness these forces for the general welfare. The crucial problem, Herbert Croly explained, was "of keeping such a highly differentiated society fundamentally whole and sound."

One potential force of disruption was the labor movement. While favoring a judicious mixture of corporate paternalism and welfare legislation to blunt the threat from below, all the "moderns" remained suspicious of organized labor. Stimson denounced the United Mine Workers as an "arrogant minority — challenging the American Republic" and called for incorporation to curb union abuses. Perkins introduced a paternalistic profit-sharing plan at United States Steel, but he would not deal with the workers on equal terms across a bargaining table. Although Roosevelt, in his later years in the White House, came more and more to acknowledge that unions were as necessary and as inevitable as big business, he retained an abiding fear of labor violence, never abandoned his opposition to the closed shop, and remained anxious to guard against possible "abuses" of union power. Even Croly, who called for "substantial discrimination" by the government in behalf of unions, demanded that the government discriminate between "good" and "bad" unions by setting down standards for union behavior.

Far more immediately threatening than the labor movement was the giant corporation — and the threat to American democracy presented by the increasing concentration of economic power in fewer and fewer hands was the foremost problem before the public at the turn of the century. Perkins, Professor Garraty shows, approached this problem from his own experience in business. Competition was cruel, wasteful,

and outmoded; the giant combinations of the twentieth century were the inevitable result of modern technology. An admirer of bigness, Perkins believed that large-scale enterprise meant the most efficient use of natural and human resources. But how could such businesses be compelled to live up to their social responsibilities? Although he himself was a man of honor, he knew that many other tycoons were not. Destruction was out of the question; the solution was government regulation — and regulation by the national government, not the states, because business had become nationwide in its scope.

Stimson came to the problem from his experience as United States Attorney for the Southern District of New York. That post, Professor Morison writes, brought him face to face for the first time with what he later termed "the new front of great corporate transgression." As with Perkins, his starting point was that the large corporation was indispensable for industrial progress. On the other hand, he realized that a democracy could not "permit unregulated control over production and sale of its necessities." Again like Perkins, he turned to regulation by the national government to resolve the dilemma. Although he had achieved as District Attorney impressive successes in restraining and punishing corporate wrongdoing, he had no faith in sporadic lawsuits as instruments of regulation. Required was a commission that would provide "for the permanent, continuous and watchful oversight of corporate business engaged in interstate commerce. . . ."

His conclusion was much the same, but the starting point for Herbert Croly was, as Professor Forcey points out, cultural rather than political or economic. Longing to infuse the United States with the communal spirit, the patriotic *élan*, that had nourished the cultural achievements of ancient Greece or Renaissance Italy, he feared lest unrestrained corporate power destroy the national cohesion demanded for creative art. Yet to dismantle the trusts would weaken the nation industrially. His remedy was that the large corporation should be accepted for its benefits, but should be regulated by a strong, centralized government. Under modern conditions, Croly held, the Hamiltonian reliance upon a powerful national government was indispensable for the achievement of Jeffersonian ends, ends which he described as "essentially equalitarian and socialistic."

This approach to the problem of corporate power was given its practical application by Theodore Roosevelt. Professor Harbaugh argues that T.R. was not the sophisticated conservative of John M. Blum's *The Republican Roosevelt*, but was a genuine progressive moved by the vision of a happier, more just, and less privileged America. There is no denying that Roosevelt became morally indignant at injustice; yet, as Professor Harbaugh himself concedes, he generally heard the call of duty only when victory appeared probable. The recurring motif in Roosevelt's thought from the 1890's on was his near-obsessive fear of upheaval from below. From his days as governor, he looked to defend a middle ground against corporate wrongdoing, on the one side, and demagoguery and mob rule, on the other. Although wielding the Sherman Act to punish the most flagrant wrongdoing, he rejected any large-scale trust-busting as a vain attempt to turn back the clock. Government regulation encompassing a

broad extension of federal power was his answer to the dangers from left and right.

The cry "regulation, not destruction" was a catchy slogan, but what did it mean? That depended upon the man, and the time. For regulation was envisaged as a pragmatic way of curbing abuses without losing the advantages of large-scale enterprise. George Perkins favored a federal licensing arrangement. Stimson wanted legislation that would prohibit "in detail the various methods of unfair trade by which competition is destroyed" along with a permanent watch-dog agency that would enforce the law and publicize corporate wrongdoing. Theodore Roosevelt first backed legislation for compulsory publicity, then led in pushing through a series of *ad hoc* regulatory measures designed to meet specific needs — the Hepburn railroad rate law, the meat inspection law, and the pure food and drug act — and at the high point of his "New Nationalism" declared that in extreme cases the government should be empowered to "exercise control over monopoly prices, as rates on railroads are now controlled. . . ." Going further, Herbert Croly called for nationalization of such natural monopolies as the railroads.

All agreed upon the need for strong executive leadership, and further agreed that this leadership must be impartial among the contending interests in society. But none faced squarely the question of how such powerful administrators could be kept responsible to the public at large. They defined the problem in terms of individual character, and their own high sense of personal righteousness blinded them to the dangers of unrestrained power. Perkins' behavior in the management of the New York Life Insurance Company was a case in point. Believing himself an honest man, he paid scant attention to legal technicalities. Such restrictions, he, in effect, told the Armstrong Committee investigators, applied only to those who were dishonest. Although Theodore Roosevelt in his heyday as a Bull Mooser came out for the initiative, referendum, and even limited recall of judicial decisions, he chafed throughout his life against restraints upon his power — and marred his record with such willful and irresponsible assertions of ego as the Panama episode or his criminal libel suit against the New York *World*.

The legal-minded Stimson was more aware of the dangers involved. He advocated a clear-cut definition of governmental responsibility to reduce corruption, log-rolling, and inefficiency. When T.R. came out for the recall of judicial decisions, he reaffirmed his devotion to an independent judiciary as a bulwark against the misuse of authority. But, in the end, he, too, placed his reliance upon individual character — he and his friends were honorable men, and honorable men would not betray their trust. The most intellectually perceptive of the group, Croly saw to the heart of the dilemma involved in reconciling his demand for strong executive leadership with democracy. Yet he evaded, rather than answered, the problem. Even while advocating the referendum and recall, he took refuge in what Professor Forcey calls his latent mysticism. The final triumph of reform, he confessed, would have to wait for some "national reformer in the guise of Saint Michael" or "some democratic Saint Francis . . . some imitator of Christ" to lead America to "national regeneration."

These progressives could shelve the problem the more easily because of their middle-class bias. They looked for leadership of the reform movement not to the extremely wealthy — although an occasional public-spirited and far-sighted millionaire such as George Perkins would lend a hand — nor to the very poor, but to the God-fearing, liberty-loving middle class. Their reliance upon the middle class as the fulcrum of progress rested upon the faith that gradual and limited reform could meet the dangers facing the republic. They desired no fundamental alteration in the structure of American society. The problems of the modern age, Roosevelt declared at the beginning of his second term, called for the same qualities that had distinguished the American people in past crises, qualities not lost in the present generation — those "of practical intelligence, courage, or hardihood, and endurance, and above all the power of devotion to a lofty ideal."

While grappling with the problems of a modern industrialized society, the "moderns" faced boldly the responsibilities imposed by America's new position as a world power. Inspired by a mixture of humanitarian zeal with desire for foreign markets to absorb the surplus of farm and factory, Perkins, Stimson, and Roosevelt hailed the burst of overseas expansion at the turn of the century. Despite his misgivings about the bloodshed in subjugating the Philippines, even Croly welcomed the imperialist surge as awakening the republic to its new duties. More significant is that Stimson, Croly, and Roosevelt stood convinced that a German victory in World War I would menace the security of the United States. The important point is not so much the correctness of their diagnosis — that is debatable; but that unlike most of their fellow Americans, they realized that isolation was no longer possible, that the free security afforded by the ocean and the British navy was drawing to a close, that the outcome of a far-off war might have grave consequences for this country.

The most sophisticated proponent of this approach was Herbert Croly. The revolution in technology and communications, Croly believed, had made isolation impossible. The United States needed a positive foreign policy to promote its "national interest." That national interest was world peace. But world peace could not be secured by mere pronunciamentos. It could be secured only by a judicious use of American power. The chief exponent in action of this strategy was Theodore Roosevelt. Exercising to the full the chief executive's control over foreign affairs, T.R. sounded the death-knell of the old isolationism and made the United States a force to be reckoned with in the power struggles of Europe and the Far East. Despite his fervent nationalism, he took limited, but still precedent-shattering, steps toward international cooperation. He even maintained before his death what Professor Harbaugh calls a "cautiously affirmative attitude" toward the League of Nations.

T.R. obscured the full significance of his achievements by his raucous jingoism, his contempt for backward nations, and his romantic notions of national honor and war. More successful in awakening the American people to the demands of a realistic foreign policy was Henry L. Stimson. His experience as Secretary of State, Professor Morison concludes, confirmed for Stimson the truth of the Rooseveltian dictum about speaking

softly and carrying a big stick. Shackled by the unwillingness of President Herbert Hoover, and the public at large, to back a meaningful effort, individual or collective, to restrain Japanese aggression in Manchuria, he learned firsthand the futility of moral stands unbacked by force. Throughout the 1930's, Stimson warned that isolation was impossible under modern conditions. Before most of his fellow countrymen, he saw the Axis threat to the nation's security and warned against the isolationist fallacy that the United States could stand apart from the rest of the world. A realist to the last, he foresaw that the United Nations could not succeed unless the big powers settled their differences beforehand.

In many ways, Gifford Pinchot belonged to the "moderns." He was, as Professor McGeary relates, an Easterner, born to wealth, Yale-educated, well-traveled. He grew up in a strongly religious atmosphere and imbibed the same moral fervor to do good. He shared the prevailing faith in moral character — a belief which in regard to his own behavior made for a self-righteousness that stigmatized any opposition as villainous and dishonest. During World War I, he displayed a similar pro-Allied bias and distrust of German ambitions, and in the years before America's entry into World War II, joined his friend Henry Stimson in warning that the United States could not safely sit by while the European democracies went under. He wrote T.R.'s famous Osawatomie speech in which the former chief executive called for a strong, centralized national state to direct the country's economic life; he himself was a staunch supporter of government regulation of railroads and natural resources; and in his most radical phase, in 1913 and 1914, even favored government ownership.

His passion for orderly development appeared most graphically in his leadership of the conservation movement. From one point of view, the conservation movement can be regarded, as Professor Samuel Hays has contended,[5] as primarily a scientific movement concerned with rational planning to promote the efficient development and use of natural resources. There is no gainsaying that the conservation movement was a reaction against the undirected and wasteful exploitation of resources under the old individualistic dispensation. The conservationists did struggle to replace the philosophy of "grab and grasp" with a scientifically worked-out, long-range program — did, in short, seek to apply the advantages of organization and planning to the problem of resources management — and it was this side of the movement that attracted the support of the large cattle and lumber interests.

Yet it would be an error to assume that the democratic, antimonopolistic slogans that accompanied the movement[6] were mere window dressing to win votes. The truth is that Pinchot looked back nostalgically to the older America of the small holder. This nostalgia was reflected in his concern for the problems of rural life, his blasts against monopoly, his repeated claims that he was fighting for the little man against the big man, his denunciations of special privilege and calls for the restoration

[5] Samuel P. Hays, *Conservation and the Gospel of Efficiency: The Progressive Conservation Movement, 1890–1920* (Cambridge, 1959), especially pp. 261–276.

[6] This aspect of the conservation movement is emphasized in J. Leonard Bates, "Fulfilling American Democracy: The Conservation Movement, 1907–1921," *Mississippi Valley Historical Review*, vol. XLIV (June, 1957), pp. 29–57.

of equality of opportunity, and his leadership of the fight within the Progressive Party for a plank demanding strengthening of the Sherman Act. His good fortune was that in the conservation movement he could fulfill his passion for scientific planning while appearing to promote democratic equalitarianism.

Such good fortune was not the lot of Borah and La Follette. They had to deal with a broader range of questions, and the gap between their remedies and the realities of modern life became painfully apparent — most painfully so in the case of Borah, who lived past most of his generation, until the end of the 1930's. Both were poor farm boys; both struggled against heavy odds for an education; both made their marks as lawyers in small towns. But not so much background as ideology made the crucial difference. Albert J. Beveridge shared much the same background — although Indianapolis was a larger, more highly industrialized urban center than Boise or Madison — but belonged ideologically to the "moderns."[7] La Follette and Borah shared a common loyalty to the vision of the older, individualistic America of the nineteenth century, and this loyalty shaped their policies, domestic and foreign.

To place La Follette in the same category with Borah is in many ways unfair to the Wisconsin reformer. La Follette had broader and more humane sympathies; he had a deeper and more genuine passion for social justice. Not only did he support welfare legislation on behalf of working men and women — much of which Borah also supported — but he displayed more sympathy for the aspirations of organized labor. Whereas La Follette favored exempting unions from prosecution under the antitrust laws, Borah's early brushes with the violent and turbulent Western Miners Federation left him with an abiding distrust of unbridled union power. Not so dogmatically wedded to states' rights, limited-government notions as his Idaho colleague, La Follette was willing to sanction so far-reaching an extension of federal power as that involved in the child labor amendment to achieve a desired reform. Again unlike Borah, he broadened his devotion to democracy to include women as well as men.

Most striking is the difference in their achievements. No important congressional measure bears Borah's name; he was responsible for no major administrative policy. He was a gadfly, a dissenter, and, in the eyes of many, a wrecker. La Follette, on the contrary, left behind a record of positive accomplishment in his home state that made Wisconsin famous as "the laboratory of democracy." Even in the more hostile atmosphere of the Senate, his constructive work continued — the Seamen's Act of 1915 was but one testimonial to his parliamentary skill. A man of firsthand experience in practical administrative problems, he understood the importance of technical expertise in dealing with complex economic problems. Perhaps more than any other man, he pioneered in the use of expert commissions in the work of government. Yet notwithstanding these differences, Borah and La Follette shared much the same world view — a world view based upon the vision of an innocent republic of happy artisans, prosperous yeomen, and thriving small business

[7] John Braeman, "Albert J. Beveridge and the New Nationalism" (Ph.D. Thesis, Johns Hopkins University, 1960).

safe behind the impassable ocean from the crimes and follies of the Old World.

They could not miss the gulf between reality and this vision. To explain what had happened, they had recourse to a conspiracy theory. La Follette's autobiography is filled with denunciations of the secret and corrupt means by which the forces of special privilege have perverted the democratic process for their private gain. Borah's fulminations against eastern bankers and speculators reflected the same temper of mind. Their approach to foreign affairs displayed the same limitations. Reflecting the anti-British animus lingering on in rural America from the days of Populism, both men feared lest this country fall prey to the diplomatic wiles of perfidious Albion. Like most of the antiwar progressives, La Follette blamed eastern financiers and munitions makers for pushing the United States into World War I to safeguard their loans to the Allies. Although voting for the war resolution — an action he later regretted — Borah denounced as bankers' plots the League of Nations, the Four Power Pact of the Washington Conference, and the repeal of the arms embargo.

The reverse side of this conspiracy theory was their faith in the wisdom and righteousness of the people. The need was to remove the barriers of caucus and convention that kept the people from a direct voice in affairs and allowed selfish manipulators to pervert the democratic process. Both men made the direct popular primary a key plank in their platforms, and with the primary achieved, both built unbeatable personal followings in their home states. More democracy all along the line was their remedy for the nation's ills. The masses were fundamentally peace-loving; a popular referendum on war, therefore, would safeguard the country against foreign intrigues. The people were sound at heart; given the direct primary, they would "send honest men to Washington." And with honest men in office, La Follette prophesied, "all our problems, however complex, will be easily solved."

The first step in solving those problems would be to halt the trend to bigness in industry, to reverse the tempo of consolidation, by vigorous enforcement of the Sherman Anti-Trust law. If Roosevelt had vigorously enforced that law, La Follette charged, he could have routed the few trusts then in existence at the start of his presidency. But his inaction allowed consolidation to continue apace. Yet time still remained, the Wisconsin senator believed, in which to recover lost ground if the Sherman Act were strengthened. The major plank in his 1924 race for the presidency was his pledge to uproot monopoly; that, the platform declared, was "the great issue before the American people." [8] Borah was another advocate of strengthening the Sherman Act. Voting against the Federal Trade Commission bill, the Idaho lawmaker called for the destruction of trusts and monopolies, not their regulation. Unless monopolies were destroyed, he warned, the independent small businessman — the backbone of the republic — would be no more.

Yet both men remained wedded to the dream of material progress. A case in point was Borah's hostility to the conservation movement as hindering the rapid development of Idaho. More striking was both men's ambivalent stand upon the tariff. The guiding principle in their approach

[8] Kenneth C. MacKay, *The Progressive Movement of 1924* (New York, 1947), p. 11.

to the tariff appeared to be whose ox was being gored. In the fight over the Payne-Aldrich tariff, Borah voted with the regulars in return for the protection of hides and timber demanded by his constituents. His opposition to subsequent tariff legislation ranging from Canadian reciprocity to the Hawley-Smoot tariff reflected his conviction that these measures were unfair to the agricultural interests; but withal he continued a staunch believer in protection. La Follette's bitter opposition to Canadian reciprocity testified to his concern for Wisconsin's farmers. And La Follette, too, though a biting critic of tariff abuses, reaffirmed in his autobiography the Whiggish vision of a flourishing home market benefiting farmer, laborer, and manufacturer.

Their ambivalence toward the successful businessman as a cultural hero made for an irreconcilable confusion of purposes. In the chapter in his autobiography entitled "Progressive Government Produces Business Prosperity," La Follette explained that his purpose "was not to 'smash' corporations," but to root out special "privileges, unfair advantages, and political corruption." "Where these do not exist," he declared, "the object has been to foster and encourage business activity." But the Wisconsin lawmaker, like so many of his contemporaries, never succeeded in explaining how he would break up the trusts without smashing corporations. It is noteworthy that the Wilson administration, pledged to destroy monopoly and restore competition, turned to the New Nationalist's program of regulation when in office.[9] It is even more noteworthy that, with the passage of time, Borah's attacks on monopoly became sheer bombast alternating with denunciations of the New Deal's tentative steps toward government planning as threatening constitutional government.

The same nostalgia for an older America shaped both men's foreign policy. At the turn of the century, both were ardent supporters of overseas expansion. Although they retained some of their earlier jingoism — La Follette, for instance, opposed the Wilson administration's repeal of the Panama Canal Tolls Act, while Borah denounced what he called Wilson's "peace at any price" policy toward Mexico — in later years both took anti-imperialist stands. La Follette attacked the President's handling of the Vera Cruz incident and introduced a resolution disavowing any annexationist designs against Mexico; he was sympathetic to the aspirations of underdeveloped countries for freedom; and he favored recognition of the Soviet Union.[10] Borah was even more vocal: he assailed American intervention during the 1920's in the Caribbean; he supported a peaceful settlement with Mexico over the nationalization of American property; he strove to align the United States with the Chinese revolution; and he backed recognition of the Soviet Union.

All this has the appearance of modernity and foresight; but a different picture emerges when we look beneath the surface and examine the bases of their foreign policy. The distrust both men felt for the bankers and large industrialists within the United States was reflected in their distaste for "dollar diplomacy." But this distaste was reinforced by

[9] Arthur S. Link, *Woodrow Wilson and the Progressive Era, 1910–1917* (New York, 1954), pp. 66–80.

[10] Valuable for tracing La Follette's shift from imperialism to anti-imperialism is Padriac C. Kennedy, "La Follette's Imperialist Flirtation," *Pacific Historical Review*, vol. XXIX (May, 1960), pp. 131–144.

their indifference to the strategic implications of the international power struggle. Neither man had a sophisticated understanding of the importance of force in international relations. Their reliance upon what Borah termed "the impelling power of enlightened public opinion" to restrain aggression was an index of their illusions in this sphere. Their naïveté reflected the limitations imposed by their nostalgia for the past — was the product, in short, of their refusal to accept the reality that the United States was inextricably and inevitably part of a larger world system.

The proof was not their opposition to American intervention in World War I; the case can be argued that a German victory would not have menaced the nation's security. Nor was the crux of the matter their opposition to the Treaty of Versailles; so ardent an internationalist as Herbert Croly joined in denouncing the pact as an unjust peace containing the seeds of future wars. What is damning was the underlying assumptions governing their behavior. Europe, La Follette warned in the hectic days preceding America's entry into World War I, was "cursed with a contagious, . . . deadly plague, whose spread threatens to devastate the civilized world." Regardless of "material loss, or commercial inconvenience," the United States should "keep [its] people at home" and "quarantine against it." Assailing the postwar Four Power Pact, the Wisconsin lawmaker declared that "we can only serve the world and our own people while we are free to pursue our own ideals and our own ambitions in an effort to uphold freedom and democracy and the rights of the common man."

The same impluse motivated Borah. He believed, writes his biographer, "that Europe has a set of primary interests wholly different from ours. . . ." For all his insight into the economic interdependence of nations, he continued to preach that the greatest service that the United States could perform for the world, as for itself, was to maintain its democratic way of life pure and unsullied by foreign contamination. He feared, Miss McKenna concludes, lest this country "risk a compromise of its faith and a coarsening of its character by active entanglement with the Old World." These romantic prepossessions inspired his opposition to the Four Power Pact as an insidious alliance that would ensnare the United States in alien conflicts; sparked his fight against this country's joining the World Court; and culminated in his quixotic crusade to outlaw war.

No one can know how La Follette would have reacted to the domestic and foreign crises of the 1930's. Perhaps his passion for social justice and pragmatic temper of mind would have led him to support the far-reaching extension of the power of the federal government involved in the New Deal. Perhaps his humanitarianism and love of freedom would have awakened him to the threat posed by the fascist dictatorships to American democracy and brought him to support measures for collective security against aggression. The careers of his sons and political heirs indicate that the first possibility was more probable than the second.[11] Borah lived long enough to go publicly on record, and that record, as set forth

[11] Edward N. Doan, *The La Follettes and the Wisconsin Idea* (New York and Toronto, 1947), pp. 143–297.

in detail by Miss McKenna, gives eloquent testimony to the dangers of good will undirected by an informed intelligence.

Though sympathetic to the liberal aspirations of the New Deal, he assailed one after another of the measures taken to implement these aims — the N.R.A., the Hull reciprocal trade program, the administration's monetary policy, the A.A.A. He was appalled by the resulting centralization of power in Washington, and before long was denouncing the New Deal as a threat to constitutional government. In foreign affairs, he worked to rally a new "battalion of death" to check the "foreign ambitions" of F.D.R.; he refused to condemn or even protest the aggressive steps taken by Hitler; he scoffed at the dangers of a European war and told Secretary Hull that his sources of information were more reliable than the State Department's; and even after the war broke out, he led the fight to block repeal of the arms embargo. To his dying day, he held firmly to his belief that this country should remain aloof from the European conflict even if that meant a Nazi victory and should rely only on its own resources for national security. The Second World War and its aftermath shattered beyond repair the illusions that had sustained Borah along with so many of his fellow Americans.

This line of cleavage between what I have called the "traditionalists" and "moderns" is, I would reiterate, fundamental to understanding the progressive movement as a whole. Yet as important as these differences were, the historian should remember that all these men were children of the same age and shared certain basic attitudes and assumptions. All accepted the certainty and universality of the Victorian code of morality. The words "truth," "honor," "justice," and "patriotism" had a real meaning. Even that philosophical relativist, Herbert Croly, snuck the absolutes of his father's "religion of humanity" through the back door. The progressive movement was as much a moral crusade as a political and economic movement — and it was a moral crusade that at times took strange twists. Borah and Pinchot, for instance, were both ardent prohibitionists.

Along with this concern for moral uplift came a belief in progress. Progress was no longer automatic; but all the progressives believed that men, through the exercise of intelligence and will, could master events, not be their slaves; that society could move itself forward; that the United States could solve the problems of a modern industrial society without doing violence to its democratic institutions. The third major belief was that the United States constituted God's favored people. All, whether internationalists such as Croly or isolationists such as Borah, believed that this country was made of different coin from the rest of the world and had a special mission to perform. These articles of faith gave to the men of the progressive era a drive, a verve, and an optimism to which we of a more tired, disillusioned, and cynical generation can only look back with a certain nostalgia of our own.

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INDUSTRY COMES OF AGE: BUSINESS, LABOR, AND PUBLIC POLICY, 1860–1897. ***By Edward C. Kirkland. New York, Holt, Rinehart, and Winston, 1961. Pp. 445 + xiv. $7.50.***

Reviewed by Wayne G. Broehl, Jr.
Dartmouth College

Can any book from that "dismal science" ever dare hope to attain those rarefied heights of superlative so common in the publisher's fiction-list advertisements — "extraordinary," "a gem," "must be read by all thinking Americans?" Albeit economic *history*, thereby presumably rendering it less "dismal," on any terms this book will be a prime candidate for pre-eminence when and if such a millennium comes to pass. For this book is a gem.

The sixth volume to appear in the admirable "Economic History of the United States" series, Professor Kirkland's book covers the same time period as Fred Shannon's companion volume, *The Farmer's Last Frontier*, thus giving doubled weighting to this germinal period of American economic and business history. (Only two projected volumes remain undone; they are to cover the Colonial period, and 1775–1815.)

Foremost, this book is authoritative. Liberally but judiciously footnoted, buttressed by a bibliography that is a miniature text in itself (wherein the author walks side by side with the reader, commenting here, cautioning there), it exudes the confident but careful scholarship of a real "pro." Always cautious that he is traveling through "the badlands of statistics," Professor Kirkland has nevertheless been able to pinpoint his analysis of this period. And he has done this not alone by a sophisticated use of the statistics available, but also through a wide use of contemporary quotations; in his words, "to find out how the period actually looked to contemporaries who participated in its activities: politicians and businessmen and labor leaders." The reader will not only figuratively rub shoulders with the knowledgeable Charles Francis Adams, Jr., but will come to know firsthand other key nineteenth-century figures that he may not have heard quoted as frequently. For example, David A. Wells, Special Commissioner of Revenue for the Treasury in the late 1860's, appears to have anticipated the current controversy concerning foreign registration of American-owned shipping when he commented on a similar clash in 1869, "There are three things, the importation of which is theoretically impossible, e.g., counterfeit money, indecent publications, and ships."

But lest Wells be assigned too oracular a role, his statement on the banking situation in 1868 reminds us that we have learned *some* things since then:

> It is now nearly seven years since gold and silver disappeared from circulation among us. During this time a large proportion of young men and women of the country have come upon the stage of active life. They have grown up without any practical knowledge of the values of a metallic currency. Their ideas and habits have been formed in the most vicious school of economy; and it is exceedingly desirable that specie should reappear among us before the harmful education shall have ripened into its natural fruit of universal extravagance and insolvency.

The frame of the book is topical. The structure of finance, banking, and the knotty post-Civil War currency question is first established, after which Professor Kirkland devotes four of his chapters to the building, financing, and reforming of the railroads. Here he gives full play to one of the delightful features found throughout the whole book — the decimation of hoary stereotypes. In his preface, the author expresses hope that he will "loosen up the economic determinism so frequently and so exclusively applied to the events and appearances of these years." And he succeeds, many times over. For example, his discussion of the two sides of stock watering (pp. 56–57) rightly highlights the accomplishments as well as the failings of the nineteenth-century railroad empires. And the following chapter on natural resources puts the "conservative" clamor in proper context by calling attention to the positive side of rapid exploitation of the country's physical heritage. Later chapters on the industrial structure and on patent policy give further emphasis to the upward thrust from business leaders so pervasive in this period; as the author puts it, "It matters little if one calls them 'captains of industry' or 'robber barons'; they were men of ability."

The focus on accomplishments allows the author to give heightened emphasis to subjects typically shunted into footnotes or single paragraphs. One whole chapter, for example, is devoted to the building of the American city itself; the material here on the construction of city improvements and the regulation of municipal and private ownership is first-rate background for today's urban renewal issues.

With growth came excess, and here Professor Kirkland is no apologist. While allowing that there were to be inevitable slippages (for example, the Tweed Ring's methods had "diversity and also a certain simple charm"), he carefully documents the many sides of the reform question; his extensive analysis of George, Bellamy, and Lloyd (pp. 306–310) is excellent. And the author's last sentence in the chapter neatly sums up the efficacy of efforts for public control in the nineteenth century: "Apparently, like Christianity, the Sherman Anti-trust Act had not failed — it had never been tried."

After four chapters on the nineteenth-century labor movement, where even as hallowed a saw as the deleteriousness of company housing is carefully viewed from both sides (p. 334), the author asks in his concluding chapter, "Was it all wrong?" and answers that while the "individualistic industrial ethic of self-reliance was certainly both bleak in terms of sound relationships and deficient in the reflective or contemplative qualities," nevertheless, "exercised in relative freedom and with a conscious view to national greatness as well as private gain, the talent for business enterprises was the source of that abundance which, in later days, democracy would administer differently."

For those of us in the "upper valley" who have been privileged to talk with and listen to Professor Kirkland in these years since he "retired" to the Vermont hills, this book will be yet another example of his eminent ability to turn a phrase beautifully: (On Tom Johnson and William Randolph Hearst) "Certainly the conjunction of the professional reformers and the notorious editor of sensationalism was puzzling. Still it was not the first time in history that the dragon and St. George were

on the same side"; (on railroad rates) ". . . through the thickets of explanation for these lower rates stalked impalpable figures of competition and combination."

But such skill is never at the expense of cogency. Might not this be a working definition of a "gem"?

Short of being picayune (two misspelled words can be cited) it is hard to find fault with this book. One wishes it were longer, but this would defeat the aims of the series. Perhaps Professor Kirkland has unwittingly destroyed another stereotype — the academic reviewer's penchant for picking fault.

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BEARSTED: A BIOGRAPHY OF MARCUS SAMUEL, FIRST VISCOUNT BEARSTED AND FOUNDER OF "SHELL" TRANSPORT AND TRADING COMPANY. ***By Robert Henriques. New York, The Viking Press, 1960. Pp. xi + 676. $7.50.***

Reviewed by William Miller
West Redding, Connecticut

The author of this monumental book is a novelist, essayist, and travel writer. He is also the husband of his subject's grandchild. A devoted Jew himself, he finds it "more than strange," as he says in his Introduction, "that no biographer had ever recorded how Marcus Samuel, an English Jew who lived from 1853 to 1927, won the title of Viscount Bearsted." To record this story for his family as for his public is his principal purpose. In the process he has also written a brilliant business history.

Perhaps excessive in length, with little of interest to the family omitted, this book nevertheless gains its quality from its rich detail, as a business history should. The massive oil literature of the past decade or so has made the outlines of the Samuel and Shell story fairly well known. Henriques, his research as monumental as his book, adds something to the structure of that story; much more important, he carries the reader to the heart of "enterprise" in the cruel days of cutthroat competition in markets the world over. How Marcus Samuel took on the Standard Oil Company at its peak in the early 1890's, and was instrumental in *reducing* its business in the Far East by a third in a mere five years, is told by Henriques with full analytical grasp. But more significant is his insight, or at least the insight his detail affords the reader, into the essential simplicity of this "coup."

Samuel was a compulsive man, optimistic, bold to the point of recklessness, overflowing with "dynamism." Of management he knew nothing and cared less. From London he would send orders to Borneo, where he had never visited, and expect them to be carried out to the letter. Explanations of failure from the field only brought hot recriminations from the City. "Technical problems solve themselves," Samuel impatiently instructed his experts. And in his day he was right. He was a general at war in an age when technical advances were being made every day, virtually on demand. Strategy must and could count on them, and strategy quite properly occupied him. He ultimately lost control of his company soon after the turn of the century, when administration in the

firm as in the industry became the key to profits, when knowledge in depth became the key to strategy.

Samuel was insufficiently devoted to his business to become the master of its details. His decline in business power, if not in wealth and income, was speeded by his quest for social acceptance, public office, the trappings of British aristocracy. All these he gained; but he acknowledged, after all, that they had been bought at a business sacrifice that left him "a disappointed man." These immaterial goals may have foreshortened Samuel's material horizons. Yet one of the great values of Henriques' book is its revelation in most concrete detail of the force of immaterial factors in business success. Nationalism, patriotism, family loyalty, prestige, "front" — all of these, when there were vast new worlds to conquer, when useful knowledge was fragmentary and no time could be allowed for augmenting it, were the forces that often made or unmade world-shaking "deals." Of such deals business and this excellent business history are full. Henriques' work is a striking addition to the literature of oil and of worldwide business.

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THE MAXWELL LAND GRANT. ***By Jim Berry Pearson. Norman, Oklahoma, University of Oklahoma Press, 1961. Pp. xiv + 305. $5.00.***

Reviewed by William J. Parish
University of New Mexico

Those who have not read extensively through the literature pertaining to the Maxwell Land Grant will find this volume refreshing, entertaining, and informative. Those who have an acquaintance with the history of this fabulous enterprise may be disappointed that the first publication to make use of the Maxwell Land Grant Company business records failed to produce a significantly deeper understanding of the firm's operations than had previously existed. The author may have been limited in his opportunity to delve into more intimate data in view of the omission of accounting books as part of the bibliography. Perhaps he was compelled to restrict his business analyses to summary figures from annual reports and to accept statements in the minute books and historical files (the latter compiled by a former company manager) without the benefit of supporting or corroborative information. Even so, the impression remains that an opportunity exists for more searching analysis into the less descriptive aspects of the corporation records.

The early chapters of the book are filled with re-told murders but with such concentration as to satisfy the appetites of the most ardent viewer of TV-westerns. The momentum of such an approach may have caused some pardonable looseness in the use of secondary materials. For instance, there seems to be no evidence that Elkins, Catron and associates "opened" a rival bank to the First National Bank of Santa Fe (p. 54) although they were in the process of organizing one. If the Territorial legislature really did appropriate $1,000,000 in 1870 as subsidy for a railway (p. 57), a confirmation of the fact is needed beyond the citation from a newspaper report. It must have been quite a flood that deposited the steel rails of some railroad, not identified, 65 miles below. (P. 233.)

The book is further marred by many minor inadequacies. The use of the term "Mexican" throughout the volume, in describing Spanish-speaking citizens, is a reasonably indigenous expression for nineteenth-century New Mexico, although the frequent use of this undefined and inaccurate term by one writing in the mid-twentieth century tends to place the roles of these long-time settlers in erroneous perspective. It seems strange to read of "a jury composed mainly of Mexicans" (p. 131).

In describing some financing and financial procedures, a word or two inserted to assure understanding often would have been helpful, as for example:". . . [bonds] sell at 50 per cent" (p. 52); ". . . opened the write-in [on bond issues] . . . against 75⅜ per cent" (p. 59).

The index, unfortunately, fails to list a number of proper names and contains few useful topical insertions. Errors and omissions in the text seem to exist in either the date 1900 or 1894? (p. 211), and San Miguel [National?] Bank (p. 214). Any reprint of this work would wish to amend the spelling errors in proper names on pages 11 (Bascome) and 21 (Kroening). Severel misspellings of common words appear here and there.

Though disappointments from reading this volume are several, it is apparent the author has made a contribution in assembling materials from previously published works and by adding business data, particularly in the modern period, not heretofore presented. His descriptions of various mining activities, based in large measure on extensive combings of newspapers, would be even more useful if these could have been tied more closely to the Maxwell Land Grant records. His chapter entitled "Developing The Grant's Resources" offers much promise for a future volume treating adequately the significance of this corporation as an enterprise.

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BRITAIN'S IMPERIAL AIR ROUTES, 1918 TO 1939: THE STORY OF BRITAIN'S OVERSEAS AIRLINES. ***By Robin Higham. Hamden, Connecticut, The Shoe String Press, 1961. Pp. 407. $10.00.***

Reviewed by John B. Rae
Harvey Mudd College

Dr. Higham's book takes us into an area in which business operations and questions of public policy are inextricably intermingled. The British experience in the operation of overseas airlines is particularly illuminating because of the variety of factors involved: whether to subsidize and how; how civil aviation should be administered; diplomatic complications in securing flying and landing rights; and, above all, the utilization of this new medium of commerce to strengthen Imperial relationships.

The author clearly feels that the British government of the period handled the problem ineptly. There was a long delay in accepting the fact that overseas air transport could not pay its own way, and then there was no really effective determination of long-range policy. It was certainly an unhappy move to vest supervision of civil aviation in the Air Ministry, where it became of necessity a stepchild, subordinated to the needs of the R. A. F. It can be mentioned in passing that the United States underwent a similar hesitation but then did get a compre-

hensive study of aviation policy in the Morrow Board Report of 1925, which among other things, pinpointed a problem ignored by the British until the late 1930's — the desirability of relating support of civil aviation to the maintenance of a healthy manufacturing industry.

The bulk of the book is taken up with the career of the British "chosen instrument," Imperial Airways. The study has been made thoroughly and elaborately in terms of the planning and operation of air routes. Other topics are less adequately treated. Except in the matter of its relations with its pilots, the management of Imperial Airways is left somewhat vague. Dr. Higham obviously sympathizes with the difficult position it was in, while at the same time he criticizes its neglect of public relations. But I find little explanation of the financing of the company, and its top executives are indistinct figures — even Sir Eric Geddes never quite comes to life.

I would also like to know more about the inferior quality of Imperial Airways planes as compared with its competitors. The blame seems to lie with the Air Ministry, but the subject is meagerly developed. These, however, may be topics for a separate study. The book as it stands is a useful contribution to the history of business in a time when political factors determine much of business policy.

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THE HARTFORD OF HARTFORD: AN INSURANCE COMPANY'S PART IN A CENTURY AND A HALF OF AMERICAN HISTORY. ***By Hawthorne Daniel. New York, Random House, 1960. Pp. 312. $7.50.***

Reviewed by Harris Proschansky
City College of New York

Abraham Lincoln, Robert E. Lee, and Man O'War, probably the greatest race horse that ever ran in the United States, all play a role in this history of the Hartford Fire Insurance Company and its affiliated concerns. The residences of the first two were insured by the company, and the life of the famed war horse was insured in 1921 by the Hartford Accident and Indemnity Company, a prominent member of the Hartford Fire Insurance Company Group. These and other interesting events are detailed in a lively account of the growth and expansion of the company, sketched against the backdrop of developments on the national scene as well as in the fields of fire insurance.

Organized in 1810, the Hartford Fire Insurance Company functioned after a fashion, although for a considerable stretch of time it did not have a regular operating staff. Both Nathaniel Terry, first president of the newly organized firm, and Walter Mitchell, its first secretary, were prominent in various business ventures in the city of Hartford, and for them the new insurance company was an incidental matter. As noted in the monograph "The Reign of Terry and Mitchell, 1810–1835," published by the company in 1940:

> During more than fifteen years Walter Mitchell constituted the entire staff for all practical purposes, acting at once as secretary, regulator of stock, underwriter, agency superintendent, general adjuster, cashier, bookkeeper,

statistician and clerk. So far as we know, the occasional services of a cleaner or charring woman constituted the only help he received. (P.219.)

From such lowly beginnings and amid a continual struggle against perils that frequently threatened to put an end to its existence at an early stage, the company rose to prominence in the fire insurance industry in the United States. The author describes the effects of economic fluctuations on the company's fortunes and sketches Hartford's adaptation to various catastrophes which caused much damage, notably the New York fire of 1835, the Chicago fire of 1871, and the San Francisco earthquake of 1906. The concern's internal growth, the development of its agency structure, its cooperation with other companies in the fire insurance industry in attempts to curb uneconomic and wasteful rate-cutting, often initiated by new companies desirous of securing a foothold, its response to legislation of a regulatory nature, its affiliation with other companies with a view to expanding its field of operations on a vast scale, and its expansion overseas — all of this and much more are discussed with clarity and in interesting fashion.

A reader of this volume gains the impression that the fire insurance industry continually orbited about the Hartford Fire Insurance Company as its sun and source of power and inspiration. Seldom is the name mentioned of a competitor, and extremely reticent is Hawthorne Daniel about the achievements and innovations brought about by other leading American fire insurance companies. He often lumps these competitors together, and there is very little indication of the role of any of them in the evolution of the American fire insurance industry and market. The vagueness on this score detracts from the value of the work as a source of information on an industry which has played a notable role in American industry's quest for reduction in economic risk.

In spite of such informational gaps, the volume illuminates the history of a company which has rendered much valuable service to its clients, its competitors and the nation as a whole. Searching for ways and means to maximize economic growth preoccupies the attention of statesmen, industrialists, and economists in all countries, whether of the developed or underdeveloped categories. This work amply illustrates insurance's vital role in reducing economic risks which might impede such growth.

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GÊNES AU XVè SIECLE. ACTIVITE ECONOMIQUE ET PROBLEMES SOCIAUX. ***By Jacques Heers. Paris, S.E.V.P.E.N., 1961. Pp. 750. NF 50.***

Reviewed by Paul J. Meier
University of Massachusetts

The role of Genoa's foreign trade in the development of the city into a principal international port and a great banking center of fifteenth-century Europe has not been sufficiently stressed by economic historians. More emphasis has generally been placed on the city's early centuries of expansion and on its golden age than on the transition time of urban growth and the consequent social evolution. Social changes in this city, hemmed in by mountains and thus without adjacent rural grounds, were

not less dramatic for frequently being overshadowed by fights for survival against hostile neighbors. The insecurity caused by the conflict between the feudal landowners and the rising group of merchants with their specialized pursuits and their orientation to the sea is reflected in the striking instability of business institutions and policies.

Intense social and economic antagonisms in a period hitherto given little attention offer new insights into the problems of early merchant capitalism and amply justify Heers' comprehensive approach to his topic, which he suitably divides into three parts. An extensive study of Genoese economic life is preceded by a short description of the natural setting and the demographic circumstances and followed by an exposition of social and political developments. The forbidding nature of the hinterland and the inviting openness of the Mediterranean are shown to be contributory, though not sufficient, reasons for Genoa's economic development. Genoese merchants have less occasion to invest their proceeds in country estates and the constitution of the city bars them from high political office. Satisfaction of their love of wealth and power, therefore, never reaches Florentine or Venetian dimensions and we may expect that continuous attention of successful merchants to their business brings steady improvements in commercial techniques.

Heers' study of the economy begins with an inquiry into means of payments and financial media. He finds metallic currency supplemented by banknotes for local and for international use, and by checks and bills of exchange which are customarily endorsable and negotiable. Foreign exchange transactions are simplified by doing away with the traditional commission, and the spread of the *contra cambium* device permits the increasing extension of credit without infringing ecclesiastic usury laws. The comparative stability of Genoese currency is assured by the relative abundance of the means of payments, the great number of private bankers with commercial background, and the stabilizing influence of the public debt administration by the *Casa di San Giorgio*. Easy negotiability of debt certificates, simple consummation of foreign exchange operations, and credit availability at reasonable terms are all characteristics of the Genoese financial system which other cities often attained only in the seventeenth century.

The dangers attendant upon sea transportation lead to flexible commercial associations with multiple shares, improved insurance contracts, and urban industrial undertakings, to minimize risks and to diversify operations. The merchant with insufficient capital backing is soon reduced to employee status, while the financially strong merchant branches into mining and industrial activities to invest his funds. Genoese metal, paper, and textile undertakings are merchant-dominated; the artisans often are foreigners and there is no strong craft tradition. Heers demonstrates how the plentifulness of capital derived from commercial operations, the reliance on artisan specialization that is not restrained by artisan social traditions, and the weakness of output regulations by guilds create in a seemingly unpropitious natural setting industrial enterprises which cannot be qualified as marked by *le grand capitalisme*.

Genoa's foreign trade was helped by domestic manufacturing and service industries but rarely depended on them. The transit trade between

the eastern Mediterranean and France, Flanders, and England was of foremost importance, but victualing supplies for the growing city were not negligible. Heavy cargoes of a few commodities furthered the construction of specialized boats of considerable size which had to be loaded as much as possible on all their trips to reduce freight rates. Triangular voyages helped equilibrate the Genoese balance of payments. Entrepôt stations, such as Chio, facilitated access to the Asiatic land routes and furnished many regional products, of which Chio's mastic is the most famous. But with the fall of Constantinople, the bulk of Genoa's trade quickly shifted to North Africa, the Apennine and Iberian peninsulas, and the Atlantic islands. Genoa's fortune was contingent upon its foreign trade; the city exported little of its own and its regional trade was unimportant.

It is the extremely pronounced difference of outlook between feudal landowners and merchants, whose capital controlled the economy, which explains the prevalence of the urban interest over the weak aspirations of an economically rather divorced countryside. Few landowners tried to compete with the merchants' wealth by increasing their holdings or going into business, and the two groups remained separated. The landowners watched over their privileges and their strong grip on the seigniory, whereas the merchants aspired to a bourgeois commune following the administration of the *Casa*. The weakness of the landed aristocracy and the lack of a coherent political interest of the merchant aristocracy accounts for much of the social strife between two groups neither of which could decisively carry its point. Heers' final chapter on Genoa's political life sustains the common observation that commercial excellence may be attained at the cost of some neglect of the *res publica* for which the merchants are not alone to be blamed. This neglect did not affect Genoa's material power but it made the commune an exclusively urban domain.

Heers has based his book on a solid examination of the relevant documents in Genoa's state and private archives. Customs and tax registers, notarial acts, and papers relating to the *Casa* were abundantly consulted; merchant letters for the period are lacking, and the only extant account book was found by the author. His careful evaluation of such scarce data of business life as changes in the price relationship of gold and silver, the size of the Genoese fleet, the prices paid for slaves, and the origin of Genoese textile workers enable him to emphasize the intensity of the city's economic growth with the support of empirical evidence. The author's pragmatism is advantageous in pointing out rapid Genoese progress in business methods and the city's quick application to promising trading opportunities. The same pragmatism appears to be responsible for Heers' reluctance even tentatively to establish lines of causation of economic action. On the other hand, one assertively posited such line, the bouleversement of the social order by economic progress, is rather inconclusively drawn out. Much as Heers' exposition of Genoa's social problems will need further elaboration, his ambitious picture of the economy is an impressive record of Genoese achievement.

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LE CONSEIL GENERAL DES MANUFACTURES. ***By Bertrand Gille. Paris, S.E.V.P.E.N., 1961. Pp. 201. NF 19.50.***

Reviewed by Paul J. Meier
University of Massachusetts

The Empire brought the rise of a distinct industrial economic interest, whose aspirations were no longer sufficiently represented by the *Conseil général du commerce*. The growing antagonism between trading and manufacturing concerns appears to stem mainly from fiscal and tariff policies favoring commercial activities. Economic warfare against Great Britain and the ensuing need to steer trade and increase domestic production, as well as the threat to output and employment by the recession of 1810, made it politically expedient to strengthen the manufacturers' impact on national economic policies.

The *Conseil général des manufactures* was created in 1810 as a consultative body of manufacturers attached to the Ministry of the Interior and entitled to make submissions pertaining to industrial developments. The *Conseil* consisted of at most 60 distinguished members, representing a wide number of manufacturing trades, who were appointed by the Minister. In spite of the somewhat vague and inconsistent formulation of its authority, the *Conseil* survived the Empire, the Hundred Days and the Restoration, with only minor changes in its method of operation, as an eloquent mouthpiece of manufacturing concerns. Only the July Monarchy immediately combined the commercial, manufacturing, and agricultural councils in an organization supposed to reconcile them in a single economic interest.

Gille's work consists of analytic summaries of the minutes of proceedings of the *Conseil* for most of its existence as a separate body. Meetings were held originally weekly; later on, a less regular fashion (bi-weekly or monthly) supposedly to allow a more frequent presence of provincial members. In addition to the problems referred to it by the Minister, the *Conseil* broached various topics on its own initiative. Foreign and domestic trade policies are by far the most important subject matter compared with which all other pursuits seem unimportant. The admittedly high level of business achievement of the members of the *Conseil* — one of the criteria of selection even asked whether *ses lumières s'étendent-elles au-delà de sa profession?* — could not hinder the prevalence of a narrowly protectionist point of view, which was only tempered when retaliatory measures of other countries were imminent. More beneficial to the commonweal was the documentation on the state of French industry and the collection of industrial statistics, which the *Conseil* undertook with the help of the *Chambres consultatives d'arts et manufactures* that were established as a counterweight to the chambers of commerce. Other topics about which the minutes furnish interesting details deal with unsuccessful proposals of restrictive patent and trademark legislation, measures to smooth the business cycle and to stabilize the growth of industrial production, steps to eliminate the lingering influence of ancient guild regulations on working conditions and output levels, and plans to restrict the expansion of financial media in the provinces.

It seems that the *Conseil* was more successful in eliminating existent,

and warding off potential, encroachments on manufacturing concerns than enlisting actual government support for the industrial point of view, particularly in tariff matters. Early fears that the *Conseil* might direct government policy toward industry proved unwarranted, and the complaint of the *Conseil* in a memorandum of 1814 that the government did not attach much importance to its submissions, was no overstatement. Once the existence of the *Conseil* had compensated for the overweight of the commercial interest and particularly with the renewed strength of free trade arguments with the beginning of the Restoration peace period, the function of the *Conseil* was reduced to little more than collection of information and deliberation.

Gille's analytic summaries of minutes, preceded by a lucid introduction and followed by a helpful index, are an invaluable contribution to the history of manufacturers' associations during a decisive period of industrial capitalism. They show the manufacturers' conservatism even in a period of rapid industrial growth. Conservative opposition to the risks attendant upon decentralized operation appears as one of the reasons for early concentration. There is unfortunately little indication of antagonisms inside the *Conseil* with the exception of the expected contrast between the manufacturing and mining outlooks. The proposed publication of the minutes of the commercial and agricultural councils will, no doubt, shed more light on the many facets of the economic interest. The present volume bears testimony to the amount of pertinent information on entrepreneurial viewpoints the American business historian could get from the proceedings of comparable contemporary domestic institutions if only these proceedings were accessible!

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CONTRIBUTIONS OF FOUR ACCOUNTING PIONEERS: KOHLER, LITTLETON, MAY, PATON. ***By James Don Edwards and Ronald F. Salmonson. East Lansing, Michigan State University Press, 1961. Pp. 238. $6.50.*** **ESSAYS ON ACCOUNTANCY.** ***By A. C. Littleton. Urbana, University of Illinois Press, 1961. Pp. 636. $10.00.*** **"RETROSPECT AND PROSPECT."** ***By George O. May. The Journal of Accountancy (July, 1961), pp. 31–36.***

Reviewed by Mary E. Murphy
Los Angeles State College

The first two publications covered by this review represent a compilation of articles, speeches, and testimony of four certified public accountants, while the article by George O. May appeared posthumously in *The Journal of Accountancy*. They are significant in a period when the "flamboyant press" is devoting increased coverage to discussion of the activities of some accountants, with an emphasis, unfortunately, more on fees than on services.

Professors Edwards and Salmonson have prepared brief synopses of articles written by Eric L. Kohler, whose career spanned education, practice, government service and consultancy; A. C. Littleton, who was on the University of Illinois accounting faculty from 1915 to 1952; George O. May, who served as senior partner of Price Waterhouse & Co.,

American Firm, for many years; and William A. Paton, who was a Professor of Accounting at the University of Michigan from 1914 to 1958. Their volume demonstrates that much written in accounting, as in any dynamic field, is of an ephemeral nature. The articles included in the compilation, ranging from discussions of financial statements, to accounts and accounting history, show how rapidly accounting has advanced in principle, technique, terminology, and emphasis in this century. Graduate students and scholars will profit from this book. They will be more aware, after reading it, of the issues which were hotly debated from time to time in accounting, auditing, cost accounting, and tax circles. Their own research should result in an examination of the publications of other CPA's who were writing about the same issues at the same time as were the four designated accounting pioneers included in the Edwards and Salmonson compilation.

Professor Littleton contributed many thought-provoking articles, especially in the area of accounting history, to American and foreign journals in the last 40 years. These have been grouped under the headings of accounting history, accounting theory, accounting profession, and accounting education in the second volume under review. This publication bears the foreword of Professor C. A. Moyer of the Illinois staff, and acknowledges gratitude to the Haskins and Sells Foundation, Incorporated, "for its cooperation and financial assistance in making possible the publication of this book." It is hoped that the Foundation may sponsor other scholarly works in the future. What Littleton has written on education is especially pertinent when it is recalled that he developed the M.S. degree in accounting at the University of Illinois in 1922, and the first Ph.D. degree in accounting in this country at the same institution.

George O. May (1875–1961) had a distinguished career in practice, as a consultant, government servant, researcher, writer and indefatigable searcher for the truth in accounting. His last paper to appear in *The Journal of Accountancy* (July, 1961, issue) comments on the present applicability of "generally accepted accounting principles." Stressing that his chief interest was always in the investing public, he wrote that "the present mode of thought of the Institute (American Institute of CPA's), however well adapted it may be or have been to the problems of small businesses, has failed to recognize or conform to economic and political trends in the field in which the expression 'accepted principles of accounting' had its origin and has today its principal if not its only proper place." In stressing that financial accounting will be concerned more and more with statistics and economics, May prophesies professional trends only dimly recognized by educators and practitioners.

In the same issue which carried his article, *The Journal of Accountancy* appraises May's record of service to the accounting profession and to the business community. It is hoped that his firm will commission someone to write an impartial biography of his career which, in retrospect, is seen to have encompassed much of the growth in membership, standards, and prestige of public accounting in the United States.

The three publications under review lead to the conclusion that the American accounting profession should sponsor a study similar to Colonel

Urwick's *Golden Book of Management* (published in England) which covers the activities of management leaders. The seventy-fifth anniversary of the founding of The American Institute of Certified Public Accountants, to be celebrated in September, 1962, should be commemorated by a volume which seeks to capture the brilliance and the wisdom of certain outstanding CPA's from 1887 forward.

HAGLEY MUSEUM HISTORY FELLOWSHIPS

The University of Delaware, in cooperation with the Eleutherian Mills-Hagley Foundation, will award two Hagley Museum Fellowships in April of 1962 for the academic years 1962–1964. Recipients of these grants take graduate work in history and related fields at the University of Delaware. In addition, they spend half of each week during the academic year at the Hagley Museum, Wilmington, Deleware, where they receive training in museum work, and at the Eleutherian Mills Historical Library, where they conduct research. They complete their work, including a thesis, in two years, and graduate from the University of Delaware with a Master of Arts degree in American history. The program is of special interest to those who wish to study the development of American industry and technology.

Each fellowship carries an annual stipend of $1,800, and is renewable upon satisfactory completion of the first year. Applications should be received by March 5, 1962. For further details, address the Chairman, Department of History, University of Delaware, Newark, Delaware.

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